

## FINANCIAL TIMES

SOVIET UNION

Yeltsin pins blame on Ryzhkov

Page 4

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Yugoslavia	513.9	Turkey	100.0	Portugal & Azores	100.0	Portugal	100.0

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Monday September 3 1990

## World News

## Cost of unity emerges as all-German election issue

The cost of German unification emerged as a significant issue in the German election campaign, launched at the weekend, after the opposition Social Democratic Party (SPD) decided to support tax increases to help pay for unity.

SPD leader Oskar Lafontaine also put pressure on Chancellor Helmut Kohl to spell out the cost of unification, which he estimates to be DM100bn (£64bn) a year. Page 16

## Yeltsin on attack

Boris Yeltsin, the Russian president, ruled out any compromise with the Soviet government over economic reform, saying Nikolai Ryzhkov, the Prime Minister, must shelve his programme for a market economy, and resign. Page 4; Editorial Comment, Page 14

## Cambodian accord

All four warring factions in the Cambodian conflict agreed to attend a meeting in Indonesia later this month to consider UN sponsored plans for a comprehensive peace settlement. Page 5

## SA violence resumes

An armed gang murdered 21 people at random in two black townships near Johannesburg, apparently to provoke a fresh outbreak of faction fighting which claimed more than 500 lives last month. Inquiry condemned police. Page 4

## New date for Shuttle

Ground controllers repaired a faulty radio link with a telescope on board the US space shuttle Columbia, setting the stage for a possible third launch attempt on Thursday, five days later than scheduled.

## Outbreak of plague

An outbreak of bubonic plague has killed three people and infected 23 others in a low-income neighbourhood on the outskirts of Nairobi, Kenya.

## Shutto minister held

Gulam Akbar Lasi, a minister of labour in the government of ousted Pakistani Prime Minister Benazir Bhutto, was arrested. Police gave no reason for the move, but the caretaker government has threatened to try members of her administration for corruption.

## Spanish bombing

Suspected Basque guerrillas rolled a car loaded with explosives at a police post in Bilbao, Spain, killing two people and seriously injuring two more.

## Ghana warns rebels

Ghana warned Liberian rebel leader Charles Taylor it held him personally responsible for the safety of Ghanaian hostages. The warning followed reports last week that Taylor's men had butchered 200 Ghanaians and Nigerians.

## Gandhi leads poll

A respected opinion poll suggested that Rajiv Gandhi, the former Indian Prime Minister, could be returned to power if a general election were held soon. Page 16

## New supersonic jet

The US partner in a joint project with the Soviet Union, set up to produce a supersonic business aircraft, has publicly presented a mock-up of the aircraft for the first time. Page 7

## Soviet-Korea talks

Soviet Foreign Minister Eduard Shevardnadze arrived in Pyongyang, North Korea, for talks which diplomats said would cover tension on the Korean border.

## Holmes at Court dies

Robert Holmes à Court, the corporate raider once known as Australia's richest man, died in Perth from a heart attack, aged 53. Obituary, Page 5

## CONTENTS

## THE MONDAY INTERVIEW

When it comes to crises in the Middle East, Yitzhak Rabin has seen it all before. His view of the current Gulf confrontation is that it is "first and foremost" an inter-Arab dispute from which Israel should stand aloof. Page 32

## Business Summary

## Asil Nadir plans more flotation at Polly Peck

Polly Peck International chairman, Asil Nadir, plans to proceed with restructuring of consumer electronics and leisure group, by seeking flotation outside the UK for more of its subsidiaries, despite the fierce storm still raging over his abortive approach to buy out the company. Page 17

**SECTION II:** Changes to the companies and markets section in the Monday edition of the Financial Times are introduced from today. The main aims are to give more prominence to important corporate and financial news, and to introduce a new page - The Week Ahead. Full details of the changes will be found on Page 17.

**EUROPEAN Monetary System:** Attention was focused away from the EMS last week, and on high yielding currencies such as sterling. The D-Mark gained from profit taking in the pound on Friday, but the EMS showed little reaction, with all members trading comfortably within their agreed limits. Currencies, Page 27

**EMS** August 31, 1990

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## CRISIS IN THE GULF

A month after Iraq's invasion of Kuwait, FT reporters look at the uneasy stalemate ahead of next Sunday's US-Soviet talks in Helsinki

## ■ WASHINGTON

## Bush eager to keep up united front

By Lionel Barber in Washington

IN seeking a one-day meeting in Helsinki next Sunday with President Mikhail Gorbachev, President George Bush intends to demonstrate that the US and Soviet Union remain united against Iraq's occupation of Kuwait.

Mr Bush knows that he needs to keep the Soviet leadership on board if he is to succeed in his strategy of isolating Iraq. If the Soviets waver – as appears to be the case in some quarters in Moscow in the past week – then President Saddam Hussein might gain the impression he could exploit superpower rivalry to hold on to his conquest.

Ever since the Gulf crisis erupted, Mr Bush has viewed US-Soviet co-operation as the force driving the international coalition against Iraq, which in turn has led to unprecedented United Nations economic and

military sanctions against Iraq. "If you want an international consensus and Arab consensus to hold, then we and the Soviets have to be visibly on board together," said one senior US official.

On Saturday, at his vacation home in Kennebunkport, Maine, Mr Bush cast the meeting next weekend as a natural extension of the new, less formal partnership between the superpowers. He recalled that both he and Mr Gorbachev had agreed to meet more regularly. "so it's a good chance to test that now."

Mr Bush also suggested that the mini-summit would enable the two leaders to make progress on other important issues, notably the stalled strategic arms talks and the almost complete conventional forces agreement cutting troops, tanks and aircraft which both

see as the foundation of a new security system for continental Europe.

But neither of these explanations takes account of what appears to have been a hasty, improvised decision typical of Mr Bush's foreign policy style. It is noteworthy that he failed to mention his planned Helsinki meeting when he spoke to Mrs Thatcher by telephone last Friday.

In recent days, US officials have registered the concern voiced by some military men and middle-ranking foreign policy officials in Moscow about the US military build-up in Saudi Arabia and the potential impact on the balance of power in the Gulf. There have also been reports of a possible Soviet mediation effort.

In the present unstable political and economic climate in the Soviet Union, Mr Bush may

have decided to nip potential trouble in the bud. Meeting Mr Gorbachev enhances the Soviet leader's stature at home; in return, Mr Bush can request further direct Soviet pressure on its old ally Iraq.

Lastly, the meeting enables Mr Bush, the master of the personal touch, to convey directly assurances about US intentions in the Middle East. After all, Mr Bush, then Republican national party chairman, lived through the 1973 Middle East crisis when superpower rivalry and mutual suspicion caused the US to put its forces on a worldwide nuclear alert.

At the same time, Washington was in the weaker domestic situation with President Richard Nixon under the siege of Watergate. This time, the Soviets are hostage to a domestic crisis – and Mr Bush wants no room left for miscalculation.

## ■ MOSCOW

## Soviet anxiety at US military build-up

By Leyla Boultou in Moscow

MR Mikhail Gorbachev, the Soviet leader, is likely to urge President George Bush to refrain from direct military action against Iraq when the two men meet in Helsinki.

The Soviet Union, Baghdad's main arms supplier and a key ally before the invasion of Kuwait, has repeatedly called for a political solution to the crisis. Its southern border is only 125 miles away from Iraq. But Mr Gorbachev's personal appeal to President Saddam Hussein to pull out of Kuwait last week fell on deaf ears, suggesting that a so-called Baghdad connection may be of little use to him.

Speaking before the snap summit was announced on Saturday, the Soviet President said that the US military build-up in the region was fraught with unforeseen consequences. "We must try to find the keys to a peaceful solution to this serious international conflict. Intensive consultations are taking place and approaches are being worked out," he told a news conference on Friday.

"Not only people would fall victim to such action, not only the oil refineries, but something that at first glance may seem less tangible but is in fact very important, the process, still only in its early stages, of humanising relations between east and west," wrote a Pravda commentator.

"I do not exclude any steps that will lead these consultations to a successful conclusion," he added, in a possible advance hint of his meeting with Mr Bush.

## ■ RIYADH

## Saudis stress their desire for peace

By Lara Marlowe in Dhahran

PRINCE Sultan bin Abdulaziz, Saudi Arabia's Minister of Defence and the second in line to the Saudi throne, made a public plea for peace at the weekend. He said war was the last resort, and it was inconceivable that Saudi Arabia would attack another Arab country.

Prince Sultan emphasised to journalists his desire for a peaceful solution to the Gulf crisis and placed his hopes in the effectiveness of United Nations sanctions to bring about an Iraqi withdrawal from Kuwait.

Sauds in the Eastern Province, which is most immediately affected by Iraq's occupation of Kuwait and the massive military build-up here, interpreted Prince Sultan's remarks as a signal to both Iraqi President Saddam Hussein and other Arabs that Saudi Arabia

was not bent on revenge and that war could be avoided.

Prince Sultan spoke in the presence of his son, Prince Khalid, who, as commander of the Arab and Moslem task force, has used much stronger anti-Iraqi rhetoric last week.

When Khalid spoke, it was a general speaking, one Saudi official said. "Prince Sultan is his father and a statesman and he spoke with more wisdom. Prince Sultan is looking to the future. Iraq is an Arab country. The fact that it has a stupid leadership should not drive us to destroy it. Our thinking should be more careful than that of the generals who want to bomb Iraq and leave."

General Norman Schwarzkopf, the commander of US forces in the Gulf, has called the Iraqi generals "a bunch of thugs". Yet Prince Sultan referred to the same generals

as "brother Arabs". His more moderate tone appears to be the result of weeks of reflection and the realisation that a war could damage Saudi Arabia as much as Iraq.

The Saudis, who only a few years ago feared an Iranian takeover of the Gulf, are again facing the same nightmare; if the US destroyed Iraq, Iran might emerge as the most powerful country in the region.

Saudi and US officials appear to agree on one point: Kuwait first. While the Americans talk of an amphibious landing in Kuwait City and gradually driving the Iraqis back from there, Saudi officials are now hoping that Mr Saddam will pull his troops out of Kuwait to escape economic strangulation.

As the Saudis see it, he has only two options: to withdraw from Kuwait or start a war. They believe that a war

would be tantamount to suicide and that his offer of peace to Iran on August 15 was a test of the Iraqi people. "Any reasonable person would think the Iraqis would turn against him, but they didn't," one Saudi said.

Mr Saddam could present a withdrawal from Kuwait in a favourable light, claiming he had taught the Kuwaitis a lesson or achieved his goal there.

This is what Saudis like Prince Sultan are apparently hoping. They point to Mr Saddam's order to Iraqi vessels not to respond to enemy fire as proof of his desire to avoid a conflict. Once a withdrawal from Kuwait is achieved, the same Saudis say, Mr Saddam's enemies would be free to pursue other means, such as assassination and coups, to rid the Arab world of him with a minimum of destruction.

## Kuwait to reimburse foreign residents

KUWAIT'S exiled government wants to reimburse foreign residents of Kuwait who lost their life savings because of the Iraqi invasion, Mr Salman Abdul-Razek Mutawa, the Planning Minister said yesterday. Reuter reports from Al-Hada in Saudi Arabia.

He said that the reimbursement scheme would have to be approximate because Iraqi occupation forces had probably destroyed some bank records. "Some will gain and some will lose, but we are not going to be pinching," he said.

Hundreds of thousands of foreigners – many of them Arabs and Asians – have fled Kuwait with little or no cash. "These people committed no crime. They just came to make a living and provide a good education for their children. We will have to do something," Mr Mutawa said.

He said however that officials had preserved pre-invasion citizenship records so that the Iraqi authorities could not alter the country's demographic structure.

Earlier, Mr Yehia Fahd al-Sistani, the Housing Minister, said the Iraqi families were already moving into houses

abandoned by Kuwaitis who were trapped abroad by the invasion or who have left over the last month. "There are fears that the Iraqis would grant them citizenship. They have all the papers and the stamps. They could hold elections," Mr Sistani said.

But his personal concern was to find more permanent accommodation for tens of thousands of Kuwaitis who have taken refuge abroad. Mr Sistani said there were now 160,000 Kuwaitis in Saudi Arabia and another 60,000 in neighbouring countries, primarily in the United Arab Emirates. Others are stranded in Egypt, Jordan and Europe.

The refugees in the Gulf states are staying in hotels, schools and spare government houses.

Mr Mutawa said that Kuwaiti embassies had started paying out living allowances to Kuwaitis who had no means of support. They would also receive lump sums to buy furniture and other basic necessities, he said. Gulf education ministers have agreed to absorb Kuwaiti children and teachers when schools reopen this month.

## ■ PARIS

## Rocard calls for common European foreign policy

By Ian Davidson in Paris

FRENCH Prime Minister Michel Rocard yesterday called for the development of a common European foreign and defence policy, in response to the Gulf crisis.

Speaking at a Socialist Party meeting, Mr Rocard said that the nine-nation Western European Union defence grouping was "the structure which could allow Europe to take charge of the fundamentals of its military security."

"Europe would be deceiving itself greatly if it thought it could live on the unearned income of history, drawing the dividends of a peace maintained by

the United States," Mr Rocard said at La Gardie-Freinet in Provence.

He said that the Gulf crisis was "not a conflict between north and south, nor between rich and poor, nor between the west and the Arabs, but a conflict between right and force," and he added: "The democracies must be capable of defending themselves."

The prime minister has long been known for his support for the principle of closer European defence integration and for the strengthening of the Western European Union. But his remarks appeared somewhat at variance with the current application of French policy

in the Gulf crisis.

Last month the French government chaired a special meeting of foreign and defence ministers of the WEU, in order to co-ordinate Europe's political and military response to the Gulf crisis. But France appears to have a more restricted view of the notion of co-operation than some of its partners in the WEU.

The Dutch government, in particular, is reported to be pressing for more far-reaching co-operation in the European countries' Gulf operations than is welcome to either France or Britain. A working meeting of senior officials from

the nine governments, held in Paris at the end of last week, is reported to have shown a sharp difference of approach between the Dutch and the French.

Meanwhile, Mr Roland Dumas, French Foreign Minister, was last night scheduled to receive a first-hand account from Mr Javier Pérez de Cuellar, UN Secretary General, on his negotiations in the Middle East with Mr Tariq Aziz, the Iraqi Foreign Minister.

The secretary general will stop over in Paris today, to attend the start of the UN Conference on the Least Developed Countries, which will be opened by President François Mitterrand.

action, he had mainly played for time in the hope Iraq could erode the US-led international coalition against Baghdad and woo grassroots Arab support to its side.

Mr Pérez de Cuellar, however, made it plain this approach was unacceptable. He said the global interests involved in the Gulf made it clear the UN had to be involved. The situation was explosive and could not be spun out over time. "We cannot wait indefinitely while the crisis is solved step by step," he said.

He did show some sympathy with Arab frustration that Security Council resolutions calling for an Israeli withdrawal from the occupied territories had not been enforced, saying he hoped the Gulf crisis would "open the eyes of those who are attacking frontally this problem of Palestine". But he rejected direct linkage, saying one sin did not justify another.

## ■ AMMAN

## Jordan sees economic disaster

By Hugh Carnegy and Lamis Andoni in Amman

POLITICALLY, Jordan is precariously balanced on a tightrope between Iraq and the West. But economically, it is plunging headlong into a chasm.

After angering friends in the West, particularly the US and Britain, by defending President Saddam Hussein and opposing despatch of foreign forces to the Gulf, King Hussein has settled on a position somewhat less provocative to the West, but still more or less acceptable to the groundswell of popular pro-Iraqi home.

On an exhaustive tour of Arab and western capitals, the King has repeatedly said Iraq's seizure of Kuwait is an Arab problem that must be solved by Arabs alone. At the same time, he has said Jordan opposes occupation of Kuwait and will abide by UN sanctions imposed on its neighbour.

But King Hussein is caught in an agonising position. Not only would imposing sanctions on his most important trading partner threaten to exacerbate already daunting economic problems. It carries a political risk of moving the King out of step with his people.

For the time being, there is little evidence of public disquiet over the King's stance. The fact that he has recently spent so much time out of the country is testimony to that. Pictures of him and Mr Saddam side by side are still a common sight around Amman. "He is more popular than at any time since the Suez crisis in 1956," said a former government minister yesterday.

Some people privately express concern that the King may be tempted to shift back towards the West. There is said to be some feeling among those with influence that Iraq has used Jordan without giving the King anything to offer as a potential mediator.

This may be overshadowed by the economic horrors now confronting the country. "It is nothing less than a catastrophe," said a senior central bank official.

Almost every vital part of the economy is threatened. Exports and imports are seizing up because of the difficulty of persuading shipping to sail through the UN blockade of Iraq to Jordan's only sea port of Aqaba on the Red Sea, which also served Baghdad. Officials say a number of import cargoes bound for Jordan are being left by shippers in Djibouti or Port Said. Those that will sail are upping carriage and insurance fees.

If Jordan fully imposes UN sanctions, losses will be huge. Transit trade, which employs nearly 4 per cent of the labour force, has already been slashed by UN sanctions. The Jordanian Exporters Association says the country could lose \$280m – about 30 per cent of annual exports – if Iraq and Kuwait are closed to Jordan.

The external account looks shaky and remittances from Kuwait worth \$300m a year are in jeopardy.

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A British Airways stewardess holds one of the children who had been held hostage in Iraq, just arrived at Heathrow airport in London yesterday after being freed

## Hurd dismisses political option

By Ralph Atkins in Muscat, Oman

MR DOUGLAS HURD, Britain's Foreign Secretary, on a tour of Gulf states made clear yesterday that any further political initiatives to solve the Iraqi crisis would not be welcomed but "the day is now more remote when that matter is raised."

Speaking after a series of meetings with Arab leaders, Mr Hurd was unsurprised at the outcome of talks between Mr Javier Pérez de Cuellar, the United Nations Secretary General, and Mr Tariq Aziz, the Iraqi Foreign Minister, although it had been right "to test the water". He said the priority should be to make sanctions effective.

There is no room in the immediate future for some speculative political initiative. We have to settle down for a long haul and we require a good deal of steady determination in the Gulf," he said.

At the same press conference in Oman, however, Mr Yusuf Bin Alawi, the Omani Foreign Minister, said he regretted that Iraq had missed the chance offered.

"This opportunity may not be prevailing again. Perhaps the analysts in the government of Iraq were not able to see how big an opportunity the United Nations has offered to them in order to save the face of the Iraqi government."

Mr Hurd said that if Iraq was to be freed within weeks. Quoting sources close to the Iranian government, the Reuter report said the hostages – who are believed to be held by pro-Iranian groups – had "lost their bargaining value" because of the profound political shift in the region caused by Iraq's invasion of Kuwait.

Mr Hurd's statement came after Mr William Waldegrave, the junior minister at the Foreign Office, told a BBC interviewer on Saturday that he was "more hopeful" about making progress in securing the release of the British hostages. "We really do have a crucial interest between us in improving

relations," he said.

A news agency report from Beirut yesterday said that one of the three British hostages remaining in Lebanon could be released later this month, while all western captives could be freed within weeks. Quoting sources close to the Iranian government, the Reuter report said the hostages – who are believed to be held by pro-Iranian groups – had "lost their bargaining value" because of the profound political shift in the region caused by Iraq's invasion of Kuwait.

Six Americans, three Britons, two West Germans and an Italian are held in Lebanon. Mr Brian Keenan, an Irishman, was freed last month after more than four years as a captive. Four other hostages have been released in the past five months.

CAUTION OVER HOSTAGES IN LEBANON

MR Douglas Hurd, the British Foreign Secretary, yesterday reacted cautiously to reports which suggested that the prospect of direct talks with Iran could lead to the early release of British hostages in Lebanon.

Asked at his press conference about his position on opening talks with Iran, Mr Hurd said: "My experience has been that, when too much appears in the newspapers, not too much happens." But he referred to the "rather positive things which I have said in recent weeks."

Mr Hurd's statement came after Mr William Waldegrave, the junior minister at the Foreign Office,

## CRISIS IN THE GULF

US aircraft carrier's battle group narrowly misses Italian warships

## Ships' near-collision raises co-ordination fears

By Lara Marlowe in Dhahran, Saudi Arabia

A NEAR-collision between US and Italian warships has pointed to serious deficiencies in co-ordination of command and control for the massive military build-up in the Middle East.

According to western military officials, the US aircraft carrier Saratoga and its battle group, including two cruisers, a destroyer and two frigates, nearly collided head-on with two Italian cruisers, the Orsa and the Libeccio, and the Italian tanker Stromboli in the Red Sea.

The Saratoga, a Forrestal class aircraft carrier, was built in 1956 and carries 70 aircraft and six helicopters.

The Italian ships were heading south from the Gulf of Suez into the Red Sea.

Just put this on and don't panic

By Ralph Atkins

PRE-FLIGHT safety instructions take on a different meaning on Gulf tours. The nuclear biological chemical (NBC) warfare suits offered to those travelling with Mr Douglas Hurd, the UK Foreign Secretary, are "the best in the world", boasts Sgt Mack McGlinchey, NBC instructor at RAF Brize Norton.

The group could hardly complain. The charcoal-lined suits, gas masks, gloves and boots take an estimated 15 minutes to put on and offer protection for several days - if the heat doesn't get you first.

Chemical detector paper included in the kit turns red to indicate a "blister" agent; you then have five minutes to wash your eyes out before going blind.

Green or yellow means nerve gas. Ninety seconds of this "you are dead", says Sgt McGlinchey. If it's detected you need to give yourself an injection, with a syringe with a 1½-inch needle. Take off the safety catch, look the other way, and plunge into the fleshy part of the thigh, through the suit if necessary.

The respirators have a drinking vessel attached. The filter needs changing after 120 hours. "What you must not do is panic because when you panic you become all fingers and thumbs," says Sgt McGlinchey.

while the American carrier group was heading north on blockade duty, when the incident took place. The ships were on the point of colliding at a speed of 40 knots when the Americans ordered their vessels to scatter and the Italian ships sailed on between the ships of the battle group.

General Norman Schwarzkopf, US Commander for the Middle East military build-up, said: "This is not Nato. There is no one supreme commander and there isn't any need for one." Gen Schwarzkopf said the Americans and Saudis had established an "integrating cell" to co-ordinate their military movements. Britain and the US have also established joint tasking.

## Shortage of volunteers for the Gulf embarrasses Tokyo

By Ian Rodger in Tokyo



Kaifu: wants new laws

JAPANESE civilians are proving reluctant to volunteer for service in the Gulf because of fears for their safety.

This is an embarrassment for the Japanese government, which wants to show the world that Japan is willing to share not just the costs of the multinational operation in the Gulf but also the dangers.

Japan is restricted from sending military forces abroad both by law and by the strength of pacifist sentiment among the public since the Second World War.

However, the difficulty in finding civilian volunteers for the Gulf will probably increase the pressure on the government to authorise the despatch of military personnel, who, unlike volunteers, can be relied on to carry out dangerous missions.

On Friday, two leading Cabinet members called for changes in the law to enable the country to send members of the self defence forces (SDF) on international peacekeeping missions.

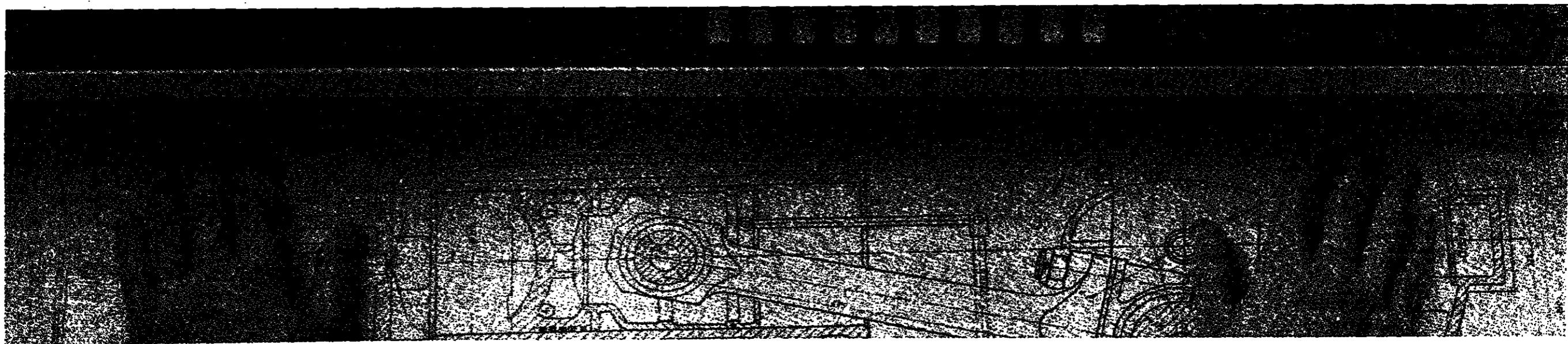
On Wednesday, the government asked for volunteers from transportation companies to ship non-military goods for the multinational forces in the Gulf and from universities to provide medical teams. However, the response has been less than enthusiastic.

"We will not fly our aircraft if we are told to go to dangerous zones," a Japan Air Lines official said on Friday, and All Nippon Airways demanded assurances for the safety of its aircraft.

The All Japan Seamen's Union said members would refuse to go into waters considered dangerous, and the shipowners' association said it would respect this position.

Meanwhile, the Ministry of Health and Welfare is having difficulty raising the 100 volunteers for a Gulf medical team promised by the government. Potential volunteers are apparently worried about conditions such as payments and compensation for accidents as well as the length of their stay, according to sources at the ministry.

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## Threat of war improves UK defence companies' outlook

By Charles Leadbeater, Industrial Editor

went up by 20 per cent.

WAR in the Gulf could benefit most British defence companies more than the Falklands conflict in 1982, which led to spending of \$900m on replacement equipment, according to an analysis published today by UBS Phillips & Drew, the stockbrokers.

The report, drawing on the impact of the Falklands on UK defence spending and defence contractors' share prices, predicts defence stocks would rise strongly if conflict in the Gulf led to military confrontation.

The conflict could offset some of the pessimism which has surrounded defence contractors since the collapse of communism in eastern Europe. Talk of a peace dividend has been overtaken, the report says.

Most defence stocks rose sharply between Argentina's invasion of the Falklands in April 1982 and its surrender in June. During that period the FT Actuaries All-Share index rose by just 2 per cent. However, British Aerospace and Ferranti saw their share prices rise by 14 per cent, while Westland, the helicopter maker, rose by 26 per cent and Hunting, an armaments maker,

will confirm the need to strengthen Britain's ability to respond to conflicts outside its traditional areas of spending, mainly on the Atlantic Navy and forces stationed in West Germany. Only 4 per cent of MoD spending goes on forces able to respond to so-called out-of-area conflicts.

A war in the Gulf would stimulate immediate demand for missiles made by British Aerospace and Ferranti and bombs from armaments makers

such as Hunting. Ferranti could be one of the main gainers as a leading manufacturer of cluster bombs and through a missile contract in the Middle East with the United Arab Emirates. Ironically, Ferranti's position in both businesses is due to its US subsidiary International Signal and Control. ISC brought Ferranti to the edge of ruin last year through a £15m fraud.

The Gulf crisis will benefit British Aerospace, the contractor on the Al Yamamah II defence contract with Saudi Arabia, and its main subcontractors, the report says. Other companies with defence interests such as GKN, Racal, STC and Smiths Industries would also benefit from a military conflict.

The report says an overall increase in the UK defence budget is unlikely. However, it predicts that manpower cuts in UK forces stationed in Europe will finance increased spending on light armoured forces which can be airlifted long distances, ground attack helicopters, and amphibious and airborne forces. A return to large aircraft carriers should not be ruled out, it says.

## A border post under pressure

By Jim Bodgener at Habur border gate, South-east Turkey

SANTARY conditions were worsening yesterday on the Iraqi side of the Turkish border gate at Habur, the exit point to which the Red Cross estimated that 200,000 refugees fleeing the Gulf crisis, mainly former Asian workers in Kuwait, were heading. Some 7,000 refugees had stalled back on the road for six miles behind the bridge crossing the frontier Euphrates River with more arriving all the time.

"It was like a vast latrine," said Mr Barkat Ali Khan, a Pakistani former office worker in Kuwait, from his packed maulus.

Most in danger were 2,000 children of all ages trapped in the heat for days in the traffic jam on the approaches to Habur under the black, forbidding cliffs and bluffs of the Zaho Mountains. Arrivals on foot, mainly single men, had declined but families occupied every fourth or fifth car.

"There was very little water and no baby food," a young Pakistani mother in a bright sari mumbled wearily. "The Iraqis kept it all for themselves. And everything is so dirty - our babies constantly have diarrhoea."

Irish border guards and officials had roused for bribes to move people to the head of the queue. "The currency is no longer Iraqi or Kuwaiti dinar but video-cassette recorders," said Mr Abdul Rashid, formerly a laboratory technician in Kuwait.

Other guards had lashed out with sticks to keep people in line. But without exception, everyone praised the succour given by the ordinary Iraqi Kurdish people of Zahra.

It seemed the Turkish authorities had finally expanded their handling capacity after a mission to the border by a team of Pakistani senators over the weekend, with the

numbers crossing rising towards 1,500 daily.

Near Habur, a large Turkish state hostel and parking lot for pilgrims to Mecca stood virtually empty. But at Gazaran, just inside the Iranian border 450 miles to the north, the provincial authorities had provided 50 tents and a guest house for refugees crossing Iran in cars and a bus shuttle from the Turkish border gate of Gurbak. The Iranians gave them ample food and water while they rested before the 1,400-mile journey home via Baluchistan.

Direct crossings south between Iraq and Iran had proved more difficult, if not impossible, according to some accounts yesterday. At Salamina, near Basra, Iranian border guards had fired over their heads to turn cars away a week ago, said Mr Ghulam Rasool Pervaiz, a computer technician.

## INTERNATIONAL NEWS

## S African inquiry condemns police township killings

By Philip Gavith in Johannesburg

A JUDICIAL inquiry has severely censured police conduct which left 18 people dead and 281 injured when police fired on anti-apartheid protesters in the Transvaal township of Sebokeng in March this year.

The killings caused the ANC to postpone its initial round of talks with the government.

The one-man commission of inquiry, conducted by Mr Justice Richard Goldstone, found that the force used by policemen was "quite inmoderate and disproportionate to any lawful object sought to be attained". Judge Goldstone recommended that all policemen who fired live ammunition on the day should be investigated by the Attorney General with a view to pressing charges.

Responding to the report, Mr Adrian Vlok, Minister of Law and Order, said the commission's recommendations in this regard would be implemented and departmental steps were also being considered against certain policemen.

He said that while certain individuals may have acted outside the law, the judge had

"voiced no essential criticism against the force as a whole, except inasmuch as it concerned the use of special constables".

Mr Vlok said that the selection and training of these police would in future be more rigorous. He said as far as possible they would not be used for riot duty or crowd control.

The report catalogues a litany of non-procedural and indiscriminate behaviour on the part of the police which was "the direct cause of the shooting". The organisers of the march, however, are also criticising for being "negligent and irresponsible in the haphazard and disorganised" way in which they had planned the events of the day.

Noting that the tragic events could have been avoided, Judge Goldstone advocated better planning of marches and greater consultation with authorities in future. "I hope the incidents will serve as a lesson for people involved in organising mass demonstrations, on the one hand, and the police authorities on the other".

## France takes up option to buy more Norwegian gas

By George Graham in Paris

GAZ de France, the French state gas distributor, has agreed to take up an option to buy an additional 2bn cubic metres a year of Norwegian natural gas from the year 2000.

Norway supplied 20 per cent of France's gas requirements last year, coming behind Algeria and the Soviet Union, and GAZ de France had already agreed to take an additional 60m cubic metres a year from the giant Troll offshore field from 1993 onwards. This Troll contract, signed in 1986, included the option which GAZ de France has now decided to exercise.

The French gas company said that the option had been under discussion for some months now, and that the decision to exercise it was

prompted by the foreseeable increase in French gas consumption, not by the current Gulf crisis.

France's own Lacq natural gas field supplies less than 10 per cent of the country's current requirements.

THE French government has decided to cut value-added tax on cars in mid-September instead of next January 1, when it had been expected to be reduced, according to a report in *Le Monde*, Reuter reports from Paris.

The newspaper reported that VAT would be reduced to either 22 or 23 per cent from the current 25 per cent. The decision to move the VAT reduction forward stems in part from the government's desire to combat inflation.

## Yeltsin says Ryzhkov stands in way of reform success

By Leyla Boulton in Moscow

MR Boris Yeltsin has ruled out any compromise with the Soviet government over economic reform, saying Mr Nikolai Ryzhkov, the Prime Minister, must shelve his programme for a market economy, and resign.

"You can't make a hedgehog and a snake," the Russian President told a news conference on Saturday. He rejected President Mikhail Gorbachev's suggestion on Friday that the "best elements" of the government's plan could be combined with the more radical approach adopted by a working group he set up with Mr Yeltsin.

Mr Yeltsin said that the programme of the working group headed by Professor Stanislav Shatalin, Mr Gorbachev's radical economic adviser, was supported by all the republics, including the Baltic states, which plan to leave the Soviet Union.

Mr Gorbachev told reporters that a final draft for economic reform would be submitted to the 15 republics at the

end of this week once measures to stabilise the economy had been finalised. The two leaders have agreed to work together on economic reform, leaving the republics maximum autonomy to decide how much of the package they would adopt.

However, their subsequent press conferences threw up one key difference - over whether Mr Ryzhkov should remain Prime Minister. While Mr Gorbachev said that the urgent need for action did not allow "the luxury of a major reshuffle", Mr Yeltsin said that Mr Ryzhkov's resignation was crucial to the success of market reforms.

"It is psychologically impossible for the government to promote any programme because people have lost faith in it," Mr Yeltsin said. "Maybe common sense will reach the leadership and the government will understand for itself that it must resign."

What one Soviet official described

as a "Bermuda triangle of Gorbachev, Yeltsin, and Ryzhkov" will no doubt be at the centre of attention.

Mr Ryzhkov said last month he would step down if Mr Yeltsin was proved right in saying he had lost public confidence. But the beleaguered Prime Minister, who has presented two abortive economic reform programmes over the past year, is still useful to the Soviet President as a scapegoat for any criticism of the Kremlin.

His resignation could also pave the way for a new government including non-Communists for the first time in 70 years - a development which Mr Gorbachev may not be ready for just yet.

Mr Yeltsin left the Communist Party in July, along with a host of leading radical politicians such as Mr Gavril Popov, the mayor of Moscow.

However, it is also possible that the

Soviet leader may have no choice but to accept Mr Yeltsin's demand for the prime minister's head. This is because Mr Gorbachev needs the continued co-operation of the Russian President, who is possibly the country's most popular politician, more than he needs Mr Ryzhkov.

It thus appears that the struggle over the government's fate is more important than differences in the two programmes: although they differ on the pace of change and on pricing policy, both contain institutional reforms essential for shifting the Soviet Union to a market economy.

The government programme, which has already begun to emerge in the form of individual laws on issues such as demonopolisation and currency reform, is thought to seek unpopular price increases in a first stage of transition to a "regulated market economy".

But Mr Leonid Abalkin, the deputy prime minister who heads the govern-

ment's economic reform commission and is also a member of the presidential working group, has said the programme could undergo radical changes as a result of pressures from republics.

Although it has not yet been published, the Shatalin plan is said to be based on the "500-Day Programme" worked out for the Russian Parliament. By setting out a precise timetable for reform, the latter seeks to give ordinary citizens a way of holding economic reformers to their promises on a month by month basis.

With institutional reforms in the first 100 days, privatisation and the sale of housing and land in the next 150 days, prices would be freed only in a third 150-day phase. A final 100-day period of "aggressive stabilisation" would include major public investment programmes to revive growth. Editorial comment, Page 14; The longest 500 days, Page 30

## Montreal bridge to reopen after Mohawk block

COMMUTER traffic may resume today over the Mercier Bridge into Montreal for the first time in 55 days. Army vehicles have tested the Mercier - one of three big bridges into Montreal from the south - and inspections have not revealed any signs of dynamite. Robert Gibben writes from Montreal.

Heavily armed Mohawks from the Kahnawake Reserve and the US had barricaded the bridge and several approach roads early in July to support a land claim at another reserve and to push their case for sovereignty and tax immunity. Troops moved in two weeks ago and negotiations for reopening the bridge finally succeeded.

Attention is now centred at the Oka Reserve west of Montreal. The army has removed all but one Mohawk barricade and has surrounded the St Lawrence shoreline.

Army sources said current negotiations could result in removal of the last barricade, enabling Mohawks and townspeople to finally return to their homes. Negotiations continue about longer term issues, such as the Mohawk claim to a large tract of south-western Quebec and eastern Ontario and Vermont and New York State as a national home.

## EC set to renew the battle over social policy

Brussels fears the conflict over legislation could get out of hand, writes David Buchan

### 1992 THE EUROPEAN MARKET

consultation field. Mr Delors is the most powerful Commission president for 25 years, and there is probably no legislative area, apart from economic and monetary union (EMU), in which he takes a closer interest than labour matters.

This might seem natural for a socialist. But many fellow socialists in the European Parliament and the trade unions see something more Machiavellian in Mr Delors' interest.

They believe, with good reason, that the Commission president is primarily concerned that battles over social policy do not distract attention from his overriding goal of achieving EMU. Britain happens to be the country most at odds with both EMU and EC social legislation. Mr Delors has therefore been, on several occasions, a restraining hand on his fellow socialist, Ms Papan-dreou.

But Mr Delors also does not

want to antagonise support that could help put him on the socialist ticket for the mid-1990s. That is why he has been extremely sensitive earlier this year to criticism from the European Parliament's (EP) socialist majority, led by Mr Jean-Pierre Cot of France, that the Commission was dragging its feet on social initiatives.

For a while, the Parliament refused to agree a general legislative timetable with the Commission, and the rate at which the Parliament is progressing single market laws has slowed down. Some left-wing MEPs have talked about holding financial services legislation hostage until the Commission gives teeth to its November 1989 "social action programme". But hostility ebbed once labour market proposals started to pop out of the Commission - in June on protecting the benefits of part-time workers and in July on regulating work hours.

Labour market legislation is relatively new territory for the Commission, even though the Single European Act (SEA) of 1986 gave the Community a bigger role in this area. That is why the Commission sought extra moral backing from the famous Social Charter, the statement of aims in the social

field that was adopted over Mrs Margaret Thatcher's lone dissent last December, but which is not legally binding. It is also why the Commission is keen to justify its proposals, with varying plausibility, as essential to keeping workers healthy and safe, or to underpin the single market.

There are two sound reasons for this. The political one is that no government is more single-minded in favour of the single market than the UK. The legal one is that under the SEA labour market proposals related to health/safety or to the internal market can be approved by the Council of Ministers on a majority vote.

Rail battle lines, therefore, over EC social policy are in deciding which proposals are "nice to have" and which the EC "needs to have" for 1992.

Many of the Social Charter goals fall into the "nice to have" category, in that failure to achieve them does not endanger life and limb or Europe's economic unity. The Commission has implicitly recognised this by saying that it proposes no legislation, simply recommendations, on a number of Charter goals.

One particular goal is best not achieved; a common Euro-

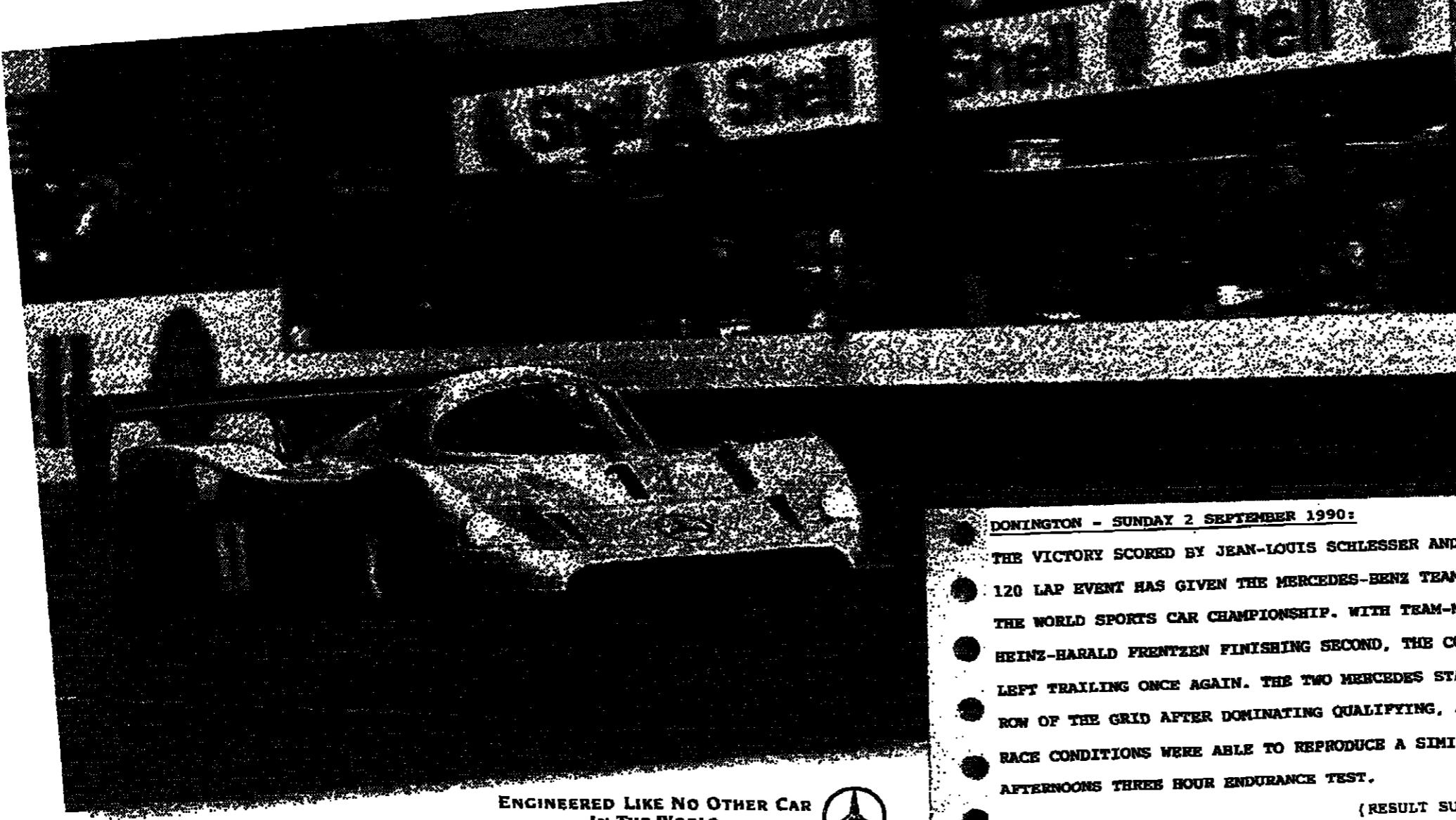
minimum wage, which would undermine the relative cost advantage of the EC's less productive economies.

But the Commission has made part of its June proposal on part-time work approachable by majority vote, on the ground that those countries where benefits for full-timers are not extended, pro rata, to part-timers gain an unfair competitive advantage over other countries where there is greater social equity.

Certainly, improvements in a country like Britain where part-time work is both widespread and largely unprotected, would be "nice to have". But the UK government and Unice, the European employers' federation, argue that labour cost variations are a mechanism of economic competition, not a distortion of it.

The forthcoming proposal that people from one EC state working temporarily on subcontract in another EC state should get the same social benefits as workers in the host country seems, on the face of it, to fit more plausibly into the "need to have" category. Indeed it is linked explicitly to the opening up of public procurement to cross-border bidding. This is one of the few proposals that could lead to cross-border labour flows.

# DONINGTON 1-2 FOR MERCEDES-BENZ



DONINGTON - SUNDAY 2 SEPTEMBER 1990:

THE VICTORY SCORED BY JEAN-LOUIS SCHLESSER AND MAURO BALDI IN TODAY'S 120 LAP EVENT HAS GIVEN THE MERCEDES-BENZ TEAM A COMMANDING LEAD IN THE WORLD SPORTS CAR CHAMPIONSHIP. WITH TEAM-MATES JOCHEN MASS AND HEINZ-HARALD FRENTZEN FINISHING SECOND, THE COMPETITION HAS BEEN LEFT TRAILING ONCE AGAIN. THE TWO MERCEDES STARTED FROM THE FRONT ROW OF THE GRID AFTER DOMINATING QUALIFYING, AND IN THE EXCELLENT RACE CONDITIONS WERE ABLE TO REPRODUCE A SIMILAR PERFORMANCE IN THIS AFTERNOON'S THREE HOUR ENDURANCE TEST.

(RESULT SUBJECT TO CONFIRMATION)

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## INTERNATIONAL NEWS

## Cambodia groups agree to peace talks in Jakarta

By Claire Bolderson in Jakarta

ALL FOUR warring factions in the Cambodia conflict have now agreed to attend a meeting in Jakarta later this month to consider plans agreed last week by the five permanent members of the UN Security Council for a comprehensive settlement.

However, full details of the four factions' agreement to attend will need to be studied closely before Mr Ali Alatas, the Indonesian Foreign Minister who has taken a leading role in efforts to end the fighting in Cambodia, convenes the meeting.

He made clear that he has no intention of calling the factions together until he can be sure all the parties concerned are committed to the same objectives.

Indonesia, together with France, chairs the international peace conference on Cambodia which collapsed in disarray in Paris in August last year. Indonesia has already hosted three meetings on Cambodia, the last of which, in February, ended in disagreement. "It would be better not to have a meeting at all than to fail again," Mr Alatas said.

He said the main purpose of a meeting in Jakarta would be to discuss the composition and function of a Supreme National Council which would govern Cambodia, with a heavy administrative role for the United Nations, on an interim basis pending general elections.

The meeting would also discuss the details of the five papers agreed by the five permanent members of the Security Council as a framework for a comprehensive peace settlement. These papers cover

### Brazil widens war on cartels

THE Brazilian government is to halve the import tariffs on all products made in Brazil by monopolies as part of its recently declared "war on cartels" to bring down prices, writes Christina Lamb in Rio de Janeiro.

The 58 products include car parts, petrochemicals, plastics and fertilisers. Companies from these sectors are already under government scrutiny following the announcement last month of tough anti-trust legislation. Several have been asked to explain price rises of between 30 and 126 per cent.

In a further drastic move towards liberalisation the government is for the first time to allow all private vehicles to issue export and import permits, an activity previously only handled by the state-owned Banco do Brasil.

The government blames both business and labour for its inability to bring monthly inflation down to single figures, a task rendered more difficult by the Gulf crisis.

Inflation for August was slightly up at 10.58 per cent compared to predictions of 3 per cent. The minimum monthly salary set by the government has almost doubled since President Fernando Collor de Mello announced his anti-inflation plan in March.

### Argentina acts to curb inflation

MR Antonio Erman González, Argentina's Economy Minister, announced a "new stage" in his adjustment policies at the weekend, promising to stem rising inflation by further reducing Government spending and increasing public revenues John Barham writes from Buenos Aires.

The Minister admitted to previous "errors" in his attempts to stabilise the volatile Argentine economy, but this time, he said: "The state has assumed its share of the responsibilities." None the less, the measures announced were less severe than expected.

Mr González announced that the temporary public employment and severance pay regulations would be changed to reduce staffing levels.

All Government payments would be controlled by the Finance Department. Public utilities will raise prices by 12 to 36 per cent.

All contract negotiations covering supply of non-essential goods and services will be broken off. Government services provided free of charge are either to be privatised or terminated, except for education, welfare, and police.

The Minister did not say by how much he expected the adjustments would increase public sector cash flow.

### WORLD ECONOMIC INDICATORS

INDUSTRIAL PRODUCTION (1985 = 100)				
	Jul. '90	Jun. '90	May '90	Jul. '89
US	116.4	116.4	115.9	114.2
Japan	126.7	124.8	125.0	118.7
UK	Jun. '90	May. '90	Apr. '90	Jun. '89
W. Germany	114.5	112.1	112.7	108.5
France	116.7	116.4	112.6	111.4
Italy	112.1	111.5	111.5	110.9
	May. '90	Apr. '90	Mar. '90	May. '89
	116.7	116.8	119.5	116.4
				+2.0%

Source: (except US and Japan) Eurostat

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- Overcapacity and high wage rates at Volkswagen
- The problems behind VW's Spanish and East European strategies
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### Bhutto to be charged this week

By Farhan Bokhari in Islamabad

PAKISTAN'S interim government will this week file charges of corruption and misuse of power against Ms Benazir Bhutto, the ousted prime minister.

Three or four charges, which the government claims will be backed with "solid proof," are being finalised. The charges, and similar charges against members of her administration, will be heard by special one-man tribunals set up which will also examine bank accounts and central bank records. Ms Bhutto has dismissed these courts as "kangaroo courts" and has said she will refuse to appear before them in person.

The first of Ms Bhutto's former ministers to be arrested was Mr Ghulam Albar Lasi, the state minister for labour, who was picked up by police yesterday. Some provincial ministers and activists have already been detained in Ms Bhutto's province of Sind.

The interim government says the cases are to make members of Ms Bhutto's government accountable for their alleged illegal actions which include receiving large kickbacks in awarding contracts and taking out loans on preferential terms.

### OBITUARY

## Holmes à Court: 'low profile private investor'

By Ray Bashford

MR Robert Holmes à Court, who died yesterday of a heart attack aged 53, was one of the leading figures in the band of Australian entrepreneurs who moved offshore during the 1980s to expand through acquisition, particularly in Britain.

When his financial strength was at its height in late 1987, the South African-born Mr Holmes à Court had an estimated personal fortune of A\$1.3bn (\$1.1bn) and had influence over companies worth many times this figure.

At this time he owned 30 per cent of BHP, the bastion of the Australian business establishment and the country's biggest company, 10 per cent of Texaco, the US oil group, the media and property interests he acquired through the disastrous takeover of Lord Grade's Associated Communications Corporation group in 1982 as well as media, natural resource and property and transport interests in Australia.

The fortune he amassed made him by far the richest individual in Australia and he had built an international reputation as one of the shrewdest stock market dealers, who financed many of his deals through plays on the futures market and through arbitrage. He moved in and out of many British companies' share registers with his most notable



Holmes à Court: always worked quietly and methodically

investments including Standard Chartered, TV-am, Vickers and Rolls Royce.

By comparison with the bush displays of power and influence which typified the activities of fellow Australian entrepreneurs such as Mr Alan Bond and Mr Kerry Packer, Mr Holmes à Court methodically built his stock market positions after careful analysis and shied away from publicity.

However, this technique, which fitted well with his urbane, polished personal manner failed him badly in October 1987. The epithet of "the big acquirer" which the press tagged him during the years

leading up to the crash was rapidly replaced with "the world's heaviest loser."

He saw the value of his fortune halved in the matter of weeks as he became Australia's first ex-billionaire. Mr Holmes à Court was being quickly circled by a posse of domestic and international banks which had funded his expansion and were estimated to have been owed A\$5.1bn at the peak of the market.

The decision by Merrill Lynch to withdraw as lead manager of a \$1.3bn bond issue left the man who in early 1987 had taken a bet with another

Australian businessman that

the bull market would continue at least into 1988 with no alternative but to launch a fire sale of assets.

Mr Alan Bond, who before his present financial crisis was a pretender to Mr Holmes à Court's title as Australia's richest man, stepped forward in mid-1988 and made a \$1.85bn bid for the Bell Group, Mr Holmes à Court's master company.

This netted Mr Holmes à Court about A\$420m through his family's shareholdings and provided him with the foundation for the creation of his present fortune.

Objecting once to the tag "the world's biggest loser" in the share market crash, Mr Holmes à Court said: "May I remind you, Mr Bond has the shares and I have the money."

A senior financial commentator in Australia who at the time was highly critical of the terms of the deal with Mr Bond said yesterday that indeed, Mr Holmes à Court's legacy to the shareholders of the Bell Group was Mr Bond.

Having made his exit from the sharemarket through the sale of this another other asset, Mr Holmes à Court chose the life of a very private investor. The "off the record" briefings with journalists continued but he always made it clear that he was enjoying

being out of the public gaze. In place of taking stakes in high profile large public companies, Mr Holmes à Court chose to move into companies which appealed to his private passions such as theatre, art and animal breeding.

To pursue these interests he split his time between London and Perth. He felt equally at home in either place, proud of his English ancestry which he had traced back to Norman times and wore the Holmes à Court, sixth Baron of Heytesbury coat of arms on his signet ring.

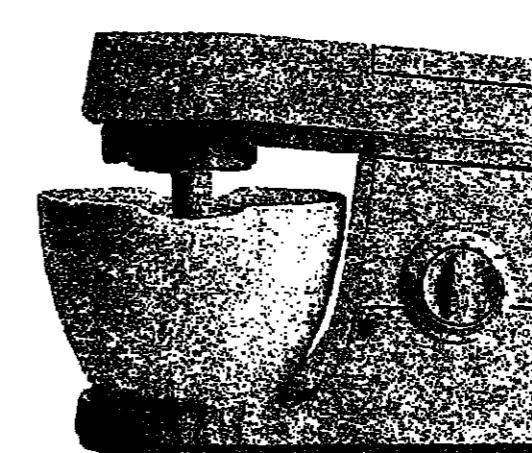
After boarding school in Natal, he studied agricultural science at New Zealand's Massey University and moved to Perth in 1962 to study law at the University of Western Australia. He laid the foundations of his empire from his base in Perth in 1970 as legal adviser to a small and ailing company, Western Australian Worsted and Woollen Mills.

He operated his empire single-handedly, refusing to share the decision making with any member of his family or staff. Senior figures in Australian business were yesterday speculating on the future of the group because, apart from his wife Janet and four children, the eldest of whom is in his mid-20s, there appears no likely heir apparent.

## Five great innovations from two of Scotland's most resourceful companies.



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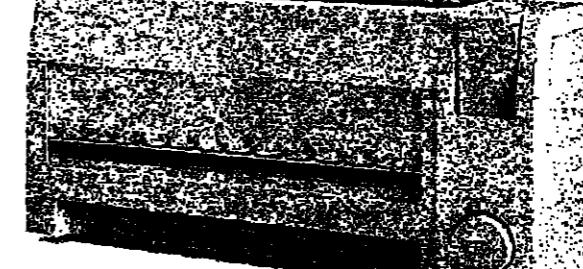
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CAPITAL MARKETS WORKSHOPS  
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The Financial Times/Price Waterhouse Capital Markets Workshops, now in their third successive year, continue to bridge a significant gap in management training. The programme provides intensive coverage, supported by case studies of capital markets activities, ranging from underlying concepts through the specific markets and instruments, to practical guidance on key aspects of management and control of the business including operations, risk management and performance measurement.

Because of the participative nature of the Workshops, places are limited in order to allow maximum benefit from each session. Speakers are drawn from Price Waterhouse's Capital Markets Group and a panel of key individuals from organisations involved in capital markets activities including: Jonathan Britton of Swiss Bank Corporation, London; Tony Cooper of Hambros Bank Limited; Bob Fuller of Charterhouse Bank Limited; Ariel Salama of Bankers Trust International Ltd; Richard Kilsby of Charterhouse Bank Limited; Richard Hines of Prudential Corporation plc; Chris Wingfield of Hill Samuel Bank Ltd and Jillian Nathan of the Chicago Board of Trade.

## BUSINESS WITH SPAIN

Madrid - 19 & 20 November

The Financial Times fifth Business with Spain forum to be arranged in association with Expansion will focus on developing strategies for international competitiveness. Senior politicians and leading figures from Spain and the international business community will review the economic climate in Europe, the changes taking place in Eastern Europe and analyse the impact of slowing down of the Spanish economy. The challenges for industry in the run up to the introduction of the Single Market in Europe will be reviewed as well as what needs to be done to develop internationally competitive enterprises and finance investment for growth.

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## TRADES UNION CONGRESS IN BLACKPOOL

## Plans to limit industrial action likely to win votes

By John Gapper, Labour Editor

The Trades Union Congress is today likely to support proposals for a future Labour government to place strict limits on secondary industrial action, despite substantial opposition from left-wing unions.

Unions including the Transport and General Workers' (TGWU) and the Sogat print union have decided to vote in favour of

unions at the Congress in Blackpool, north west England. A substantial vote, however, for unions to be given more freedom to call sympathetic action, and determine whether they elect senior officials is likely to cause concern to Mr Kinnock who will address Congress tomorrow.

A vote of 42m is needed for a majority on the Congress floor, and leaders of left-wing unions last night accepted that they were unlikely to achieve this. But some hope that Labour will still amend parts of its proposals.

Mr Ron Todd, TGWU general secretary, swayed his union's delegation to support the motion supporting Labour's policy as well as that from the Nalgo public service union which conflicts with parts of it.

Mr Todd said 95 per cent of the 106-strong delegation had voted to back both motions, which would allow him to

make clear his support for Labour when he speaks today.

Mr Alan Jenkins, Nalgo's general secretary, said balloting on industrial action was not at issue. But Mr Bill Jordan, Amalgamated Engineering Union president, said unions could not "afford to play politics with the future of the Labour movement's hopes and aspirations" by risking disrupting support for Labour.

The main elements of the Nalgo motion which worry the TUC and the Labour leadership are calls for Labour to "repeal and replace existing anti-union legislation" and allow "solidarity action" in support of other workers on strike.

Mr Kinnock is expected to tell Congress tomorrow that unions will not be able to expect favours from a Labour government. Party leaders believe it is essential to defuse the issue of its relations with unions before the election.

A Mori poll of 1,880 adults for the Sunday Times newspaper found that the proportion thinking that unions have too much power has fallen from 82 per cent in 1978 to 38 per cent today.

## Poll blames managers for economic ills

LESS than 40 per cent of British people now believe that unions have too much power, and 58 per cent believe bad management is more to blame than unions for the country's economic problems, according to opinion polls published yesterday. John Gapper

By Michael Smith, Labour Correspondent, in Blackpool

## Investigators to meet Scargill to discuss allegation over funds

By Michael Smith, Labour Correspondent, in Blackpool

there may be disagreements on who owns money donated during the 1984-5 miners' strike.

The funds, which amount to more than £1.4m, are in accounts controlled by the International Miners' Organisation, of which Mr Scargill is also president.

They say they were donated for use by miners throughout the world but a report by Mr Gavin Lightman QC, prepared at the request of the NUM, suggested that the money was intended for British miners and should be claimed by the union.

Legal action was subsequently taken against Mr Scargill and the International Miners' Organisation but this has been suspended while the investigation takes place. Mr Scargill repeated his view that he and Mr Heathfield had done nothing wrong in their handling of union funds during and after the pit strike.

The four investigators refused to say what was done in the report. The length of yesterday's meeting suggests that

## Trade unions urged to try Labour recipe for reform

John Gapper on the dilemma facing Britain's largest opposition party and its main union supporters

Mr Ron Todd, leader of Britain's largest union, best defined the problem facing the Labour Party and trade unions in altering employment law when he said: "The first line in a recipe for rabbit stew is 'catch your rabbit'."

Mr Todd, general secretary of the TGWU general workers union, was talking at the Scottish Trades Union Congress of the need to elect the opposition Labour Party before laws could be altered but a similar problem has faced Labour itself.

The process of change was a long one - a subtle shift of mood was signalled at last year's Labour conference when the old call for all Conservative legislation to be repealed was rejected in favour of abolishing only "anti-union" laws. The TUC last year backed ideas such as pre-strike ballots.

The cumulative effect of reforms, such as the removal of Labour support for the closed shop meant that unions were being asked to put many of the symbols of the 1980s behind them.

It is now uncertain that they

will change their stance decisively enough to satisfy critics at today's key opening debate of the TUC in Blackpool. That uncertainty stems from an expert rear-guard action mounted by the Labour loyalists relying on the European Social Charter and the left pointing to the conventions of the International Labour Organisation (ILO).

Britain has been an ILO signatory since it was formed by the great powers under the 1919 Treaty of Versailles and the left has made play of a ruling by an ILO committee of experts last year which criticised a number of aspects of British labour law, although ruling in favour of compulsory strike.

The second is among craft unions which have opposed the abrupt dropping of support for the closed shop. This was one of Mr Blair's first moves as Labour's employment spokesman and upset unions who have seen as other unions "standing on their heads."

The third is activists in unions such as the TGWU who

have manoeuvred against changes being handed down from above.

One curious aspect of the debate has been that both sides have cited international labour law standards in support of their position: the Labour loyalists relying on the European Social Charter and the left pointing to the conventions of the International Labour Organisation (ILO).

Britain has been an ILO signatory since it was formed by the great powers under the 1919 Treaty of Versailles and the left has made play of a ruling by an ILO committee of experts last year which criticised a number of aspects of British labour law, although ruling in favour of compulsory strike.

The committee of experts backed both sympathy boycotts in support of primary disputes and strikes with mixed political and industrial motives. It also emphasised the right of unions to determine

their own rules. Mr Blair insists the ruling is in line with his policy but the left disagrees.

The local government union has cited the ruling in its call for the freedom to organise sympathetic strikes, such as local government workers backing ambulance staff. This would be outside Labour's formula of a second group of workers having to have a "direct occupational or professional interest" in the first dispute.

Labour does not want as radical a change as the 1971 Industrial Relations Act - which removed the idea of immunities in favour of a right to strike - but its proposed Industrial Court harks back to the National Industrial Relations Court of that era.

The unions backing Labour see it as fair exchange for gaining new rights for members and measures to enforce recognition, despite the break with the past it implies. Mr Tony Young, general secretary of the Young, general secretary of the

National Communications Union said: "Only fools and the dead never change their views."

The left, however, is unhappy at being told to conform in the interests of catching the Labour government rabbit.

Mr Colin Christopher, general secretary of the FATA furniture workers' union and a leader of the left's Campaign for Free Trade Unions thinks unions should resist being coaxed in this way. He said: "I don't think that would be honest. We have to stick to our beliefs and win hearts and minds over to them."

It has come down to which unions believe the Labour rabbit can be caught without them changing old stances - and accepting tighter legal restrictions than elsewhere in the world. It has been a hard idea for some to accept. Others see it as the price they must pay for their part in modern history.

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## INVITATION NO T-01/83

The People's Democratic Republic of Ethiopia has received a loan from the African Development Fund in various currencies towards the cost of Road Maintenance Equipment and spare parts and it is intended that the proceeds of the loan will be applied to eligible payments under the contracts for the supply of equipment and spare parts.

The Ethiopian Transport Construction Authority now invites sealed bids from eligible bidders for the supply of Road Maintenance equipment and spare parts. Only Suppliers from member countries of the African Development Bank and African Development Fund state participants are eligible to bid. All Goods and ancillary services must have origin from member countries of ADB and ADF State participants.

Interested eligible bidders may obtain further information from one set of bidding documents to be collected during office hours from the Procurement Office Room No 108 upon payment of non-refundable Birr 50.00 per set. Each request for documents shall be accompanied by the Official name and address of the bidder.

The closing date for submission of bids shall be 1000 hours local time on October 2, 1990 at which time the opening will take place in the Conference Room 4th floor of the Ethiopian Transport Construction Authority Head Quarters Building.

The Ethiopian Transport Construction Authority reserves the right to reject any or all bids that are not in conformity with all conditions and specifications mentioned in the tender.

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## UK NEWS

## THE FARNBOROUGH AIR SHOW

## Engine makers step up battle for dominance

By Paul Betts, Aerospace Correspondent

THE FIERCE battle for dominance in the emerging market for high-thrust commercial jet engines intensified yesterday at the Farnborough Air Show when Rolls-Royce announced the first successful test runs of its Trent engine and General Electric of the US unveiled a full-sized model of its rival GE90 engine.

Sir Ralph Robins, deputy chairman of Rolls-Royce, said the company was more than two years ahead of GE in the competition to win a dominant share of the sector. "We are in business, we are delivering power, all GE has got is a wooden mock-up," he said.

Mr Brian Rowe, head of GE's \$8.8bn (£3.59bn) engine operation, claimed the US engine was setting a new industry standard.

He also disclosed that Ishikawajima-Harima Heavy Indus-

tries (IHI), Japan's pre-eminent maker of aircraft engines, had agreed to become a 10 per cent risk-sharing partner in the \$1bn to \$1.5bn GE90 engine programme.

GE's other partners include Fiat of Italy with 10 per cent and Snecma of France with 25 per cent. GE is also in talks with Volvo of Sweden.

IHI is also a risk-sharing partner in the Rolls-Royce Trent together with KHI of Japan, Hispano Suiza of France and BMW of West Germany.

Mr Frank Turner, head of Rolls-Royce's commercial engine business, said yesterday that outside risk-sharing partners accounted for about 17 per cent of the Trent programme but he said Rolls-Royce's target was to end up with such partners taking 20 per cent to 30 per cent of the programme.

Sir Ralph said the Trent pro-

gramme would cost £450m, of which £50m had been spent to date.

Both the GE90 and the Trent are competing in the market for wide-body twin-engine medium to long-range airliners. The GE90 is especially targeted at the Boeing 767X, a wide-body aircraft which the US manufacturer has yet to launch.

Meanwhile Pratt & Whitney Canada, a subsidiary of United Technologies, said yesterday it had sold engines for 100 regional aircraft to American Eagle, the commuter arm of American Airlines, writes Paul Abrahams.

The company said the order, which could be for as many as 250 engines, was the largest single order ever awarded for one type of regional aircraft. It refused to indicate the value of the deal.



Brian Rowe with a mock-up of General Electric's GE90 engine, which he says is setting a new industry standard

## Mock-up of US-Soviet jet displayed

By David Boggis

GULFSTREAM AEROSPACE, the US partner in a joint project with the Soviet Union to produce a supersonic business aircraft, has displayed a mock-up of the aircraft in public for the first time.

The Soviet partner is the Sukhoi design bureau, which has experience of building high-performance aircraft

such as the Su 27 fighter and Su 24 attack aircraft, both considered formidable by Western air forces. Gulfstream has about 20 years' experience in building executive jets.

Mr Allen Paulson, Gulfstream chairman and chief executive, was confident that a market for the projected aircraft existed.

## BAe awaits Saudi decision on purchase of Tornados

By David White, Defence Correspondent

A SAUDI ARABIAN order from British Aerospace for a further 48 Tornado aircraft remains in doubt in spite of the military crisis in the Gulf.

The makers of the Anglo-German-Italian aircraft did not know whether or when Saudi Arabia might go ahead with the purchase, Mr Hans-Joachim Klapperich, managing director of Panavia, the company managing the Tornado programme, said yesterday.

Saudi Arabia has already purchased 72 Tornados. It was expected to order the additional 48 under a second arms package concluded with the UK two years ago.

However, the order was

thrown into doubt earlier this year in discussions over Saudi priorities for arms supplies.

The £1bn-plus contract is crucial to the work programme of BAe and its partners. It may depend on whether the US is prepared to sell to Saudi Arabia the long-range strike version of the F-15 fighter, the F-15E.

The Gulf crisis has already prompted the US to agree to send more F-15s, in other versions, to Saudi Arabia. The US has released 18 aircraft that the Saudis had on order from McDonnell Douglas as standby replacements, and is due to supply 24 more from the US Air Force inventory.

The US Administration has waived a restriction which limited to 60 the number of F-15s that could be held on Saudi territory. The restriction was set because of objections by the pro-Israeli lobby in Congress.

However, it is still unclear whether the US will allow the Saudis to have the F-15E, which Riyadh has sought for the past five years.

The US aircraft being supplied are air-to-air fighters without the ground-attack capability of the F-15E or the Tornado.

McDonnell Douglas is at the same time marketing its F/A-18 Hornet as a possible replace-

ment for the remainder of Saudi Arabia's ageing fleet of 110 F-5 fighters - in competition with General Dynamics' F-16.

Doubts over the future Saudi market mean that the Tornado partners are looking to update work to occupy their manufacturing lines after 1992.

An order of 33 replacement aircraft for the RAF, which was to have provided the core of an "eighth batch" standard production run was cancelled in June.

The consortium is awaiting an Italian decision later this year whether to buy a further 16 aircraft for electronic warfare and reconnaissance, and is

hoping for an order from Thailand for 12 ground-attack Tornados.

Without these, Tornado production is expected to end at 929 aircraft, of which 820 have already been delivered.

Mr Klapperich said it was possible that the market for new Tornados would be undercut by the RAF selling off aircraft it no longer required.

He predicted that the monthly production rate would slow from three to four aircraft at present to two to three aircraft.

Panavia is negotiating a deal to supply modification kits to update the RAF's ground-attack Tornados and to provide in-service support.

## Deposits to be sought for some BT connections

Financial Times Reporter

BRITISH Telecom is to introduce a national system for rating the creditworthiness of new telephone applicants from the end of this month.

The scheme will mean that those rated as most likely to default on their bills will be asked to pay a deposit of up to £200. If users in this category subsequently pay their telephone bills without the need for reminders for four successive quarters, their deposits will be refunded.

Oftel, the telecommunications watchdog body, is aware of the scheme and is understood to want to be reassured that the system for establishing creditworthiness is fair.

Otherwise, says BT, no objections have been raised so far.

Under the system, each new customer will have a code denoting creditworthiness, based on information supplied about the individual by Westcot Data, one of the UK's "big four" credit reference agencies, as well as on other factors such as the type of area and accommodation in which the would-be subscriber lives.

Oftel's desire for reassurance about the assessment process is understood to relate to the type of information which might be placed in BT's hands.

Last week the Data Protection Agency served enforcement notices on the main credit reference agencies requiring them to limit creditworthiness information to that concerning the applicant only.

In the past, additional information provided - for example, that there have been bad payers in the apartment block in which an applicant might live - has led to credit being refused.

BT defends the checks on the grounds that there are some circumstances in which the risks of default have already been shown to be high, such as in the case of foreign student communities.

In any case, it argues, the national scheme will only replace a much more haphazard system in which BT's 27 telephone districts have run their own credit checks and deposit systems.

## Production of cars and trucks falls sharply in first half

By Kevin Done, Motor Industry Correspondent

UK VEHICLE production in the first six months of this year fell sharply, led by a steep drop in the output of British truck makers and lower car output by Rover, Ford and Nissan.

Car production declined by 8.9 per cent to 653,612 in the face of lower demand in the UK new car market, industrial conflict at Ford's assembly plant at Halewood in Merseyside, and production interruptions caused by significant model changes at several car manufacturers.

Commercial vehicle output was 15.7 per cent lower than a year ago at 152,001, according to figures released by the Society of Motor Manufacturers and Traders.

Truck makers have been hit hardest by the recession in the UK vehicle market. Iveco Ford, ERF, AWD, Renault Truck Industries, Seddon Atkinson and Foden have all been forced virtually to halve production in the first six months of the year, compared with output levels a year ago.

Leyland DAF, the UK subsidiary of DAF of the Netherlands, has cut truck output by

## UK VEHICLE PRODUCTION

	1990 Jan-June	1989 Jan-June	1990/89 % Change
<b>CARS</b>			
Total	653,612	717,544	-8.9
Rover (British Aerospace)*	224,149	265,725	-15.6
Ford	176,389	216,713	-18.6
Vauxhall (General Motors)	130,957	108,946	+20.2
Peugeot	65,538	53,688	+22.0
Nissan	27,147	42,706	-36.4
Jaguar (Ford)	24,279	24,914	-2.5
Rolls-Royce (Vickers)	1,721	1,726	-0.3
Lotus (GM)	732	598	+22.4
<b>COMMERCIAL VEHICLES</b>			
Total	152,001	180,287	-15.7
Ford	70,127	78,519	-10.7
Rover (British Aerospace)**	21,150	24,411	-13.4
Leyland DAF (DAF)	18,724	20,652	-9.3
IBC Vehicles (GM/Isuzu)††	17,282	21,060	-18.0
Vauxhall (GM)†	15,832	16,126	-1.8
Iveco Ford	3,691	6,877	-58.4
ERF	1,223	2,669	-54.2
AWD	1,123	2,603	-56.9
Renault Truck Industries	704	1,584	-56.6
Seddon Atkinson (Enasa)	587	1,117	-47.4
Foden (Paccar)	479	989	-51.6

\*Includes Range Rover/Discovery. \*\*Car-derived vans and Land Rovers. †Car-derived vans and micro vans sold in Europe exclusively under Vauxhall, Isuzu, GM, Bedford and Suzuki names. ††Car-derived vans and micro vans sold in Europe exclusively under IBC Vehicles, GM/Isuzu and Leyland DAF names.

Source: Society of Motor Manufacturers and Traders

Credit Lyonnais says thank you to its friends in

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## UK NEWS

## Thatcher says curbing Bonn is 'up to EC'

By Alison Smith

THE RESPONSIBILITY for ensuring that a re-unified Germany did not totally dominate the European Community lay with the other European countries, Mrs Margaret Thatcher said yesterday.

She insisted that this could be done by all the member states putting forward their own positions in EC discussions. "We've been negotiating in the Council of Ministers, that some of the smaller nations sometimes will say: 'If France and Germany agree, the rest of us should agree.' And I have said 'No'. You each put your own viewpoint and you each analyse the situation," she said.

In an interview on TV-am's Frost on Sunday programme, the Prime Minister warned that Germany was far more likely to be dominant in a federated Europe - by virtue of its 80m population - than in the Europe of sovereign nation states that Britain wished to see.

She also looked to the expansion of the EC through the membership of Eastern European countries such as Hungary, Poland and Czechoslovakia to make it less likely that one country would dominate, adding that in joining the EC they would not wish to lose

the sovereignty they had only just reasserted.

Mrs Thatcher said that there would need to be "a tremendous amount of adaptation" from the Community to cope with East Germany's environmental problems and large-scale agricultural production.

But her reference to a "brief transition period" before East Germany was required to meet EC standards for goods and services and the environment, as well as complying with the Common Agricultural Policy, made it clear that she expected important changes in East Germany as well.

On the Soviet Union, the Prime Minister said that she thought "the worst is over", and that President Gorbachev did not face insoluble problems.

She also sounded slightly more encouraging about the possibility of British aid to the Soviet Union, within the context of the Soviet people's new realisation that they had to work together in achieving economic freedom.

The British Government has been cautious about giving aid to the Soviet Union along the lines of the "know-how" funds for Poland and Hungary, because of the likelihood of its disappearing into a "black hole," as one official put it.

## Three companies in telecoms initiative

By Hugo Dixon

TELECOMMUNICATIONS engineers from GPT of the UK, Siemens of West Germany and Stromberg-Carlson of the US have in the past two months begun work on designing the next generation of computerised telecommunications exchanges.

When the project is in full swing, 8,000 engineers from the three companies will be engaged on it.

Designing advanced telecommunications exchanges for the world market is the most significant co-operation agreement to emerge between the three companies since Siemens

took a 40 per cent stake in GPT, which owns Stromberg-Carlson, last year as part of its joint acquisition of Plessey with the UK's General Electric Company.

At the time, Mr Karl-Heinz Kafke, Siemens chief executive, said the cost of developing the next generation of exchanges, put at between \$1bn and \$2bn, was too high to be borne by one firm.

The new switches or public exchanges are being designed in an evolutionary way so they are compatible with GPT's System X exchange, Siemens' EWSO model and Stromberg-

## Mr Gerald Ronson

Financial Times Reporter

IN WEDNESDAY'S FT we carried a report of Mr Justice Henry's remarks on sentencing three of the defendants in the Guatemala trial. We reported the judge as saying that Mr Gerald Ronson had told the DTI inspectors that an indemnity against loss had not been proposed to him. This was incorrect.

We apologise for our error and acknowledge that in making no order against Mr Ronson for payment of the costs of the DTI inquiry, Mr Justice Henry referred specifically to the fact that Mr Ronson had, by his commendable frankness, assisted the inquiry.

Carlson's DCO switch. They will be more powerful than the current generation because, as well as switching voice traffic, they will be able to handle video pictures and almost limitless data traffic.

The project is expected to be complete by 1995, with the aim of having such "broad band" switches on the market before any other group in the world. Siemens is already experimenting with the prototype in Berlin.

Of the 8,000 engineers, 5,000 will be from Siemens, 2,000 from GPT and 1,000 from Stromberg-Carlson.

## Probation officers seek sentencing change

Financial Times Reporter

SENTENCING POLICIES of UK courts must be changed radically if the use of custody is to be reduced and the pressures which led to this year's jail disturbances are to be lessened, the 7,000-strong National Association of Probation Officers argues.

In its submission to Lord Justice Woolf's inquiry into the disturbances, NAPO says excessive and inconsistent use of custody, degrading conditions, the operation of the parole system and a lack of constructive activities within jails have all contributed to growing discontent and disturbance.

The trend to longer sentences and the high proportion of blacks in the prison population are also seen as particular sources of concern.

NAPO describes as "flawed and misplaced" the Government's £1.5bn programme to build more prisons in response to the difficulties.

The association proposes a package of reforms to include statutory curbs on lengths of sentencing and remands into custody, local authority-based crime prevention initiatives, a review of the system for appointing the judiciary and an extension of existing non-custodial punishment.

## NEWS IN BRIEF

### Call for new business airport

A CALL for the airfield at RAF Northolt, on the A40 west of London, to be developed as a new airport for business traffic comes in a report published today by the right-wing Adam Smith Institute, writes Alison Smith.

The report, Take-Off For Business, argues that the air traffic congestion at Heathrow and Gatwick is already so serious that, unless further facilities are provided for business traffic, British business could lose out in a wider European market.

The report says Britain must "consider the business aircraft now flying into these new markets. Unless adequate provision is made in the London area ... we will see a business exodus from London and the UK into Europe in the 1990s."

The paper comments that although sites such as Farnborough and Biggin Hill could help meet demand, only Northolt is well-enough connected with London by road and rail links to meet the need for new facilities for business traffic.

The report says several companies have expressed an interest in putting money into new facilities at Northolt, if the Ministry of Defence agreed to allow commercial expansion of the airfield.

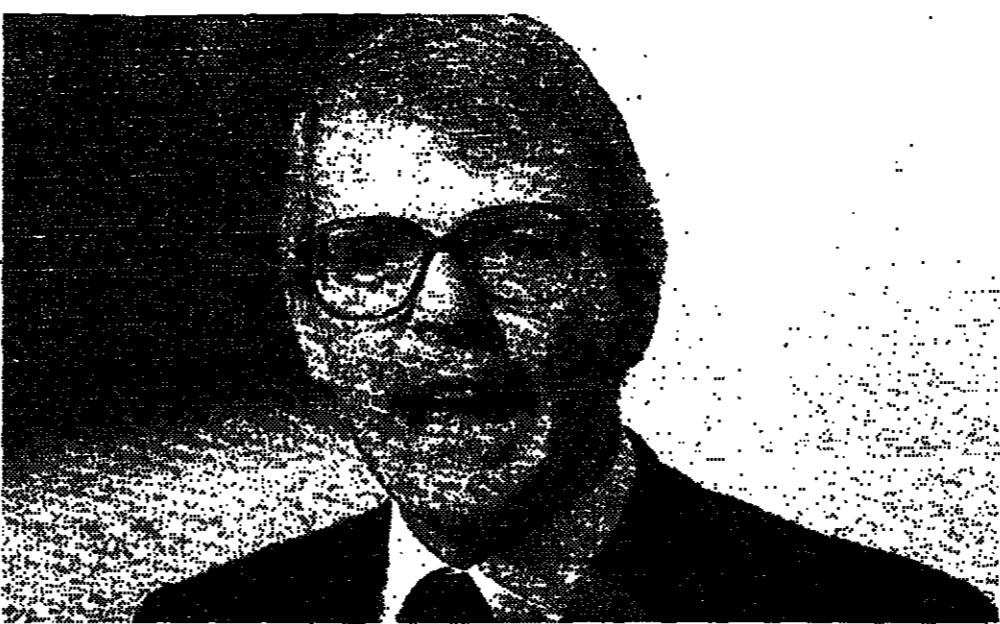
### Compensation rules attacked

NEW RULES on recovering the full costs of social security benefits paid to those receiving compensation for injury or disease because of someone else's breach of duty or negligence were condemned yesterday by Mr Michael Meacher, the opposition social security spokesman.

Mr Meacher said the scheme, passed in legislation last year, would enable the Government to take back even amounts awarded for pain and suffering.

Under the old rules, payments could be deducted only from damages awarded to cover "any loss of earnings or profit."

The new arrangements apply to compensation awarded from today onwards, where an injury occurred at or after the beginning of 1989.



John Major: his return from holiday was greeted by hints of base rate cuts

and business confidence, as documented by the Confederation of British Industry, is at its lowest ebb since the recession of 1981.

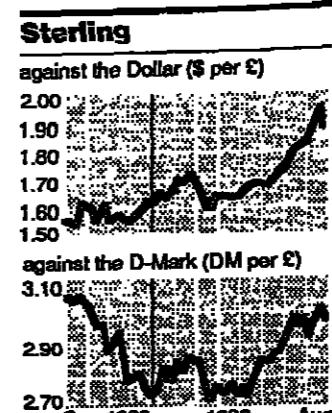
Almost without exception, the data has indicated a marked slowdown in activity in the third quarter, and the markets are discounting a cut of 1 per cent by Christmas.

But inflation in the UK is not converging on the European average; it was still rising at a rate of 9.8 in July and is set to go over 10 per cent because of petrol price rises in August.

But analysts and the markets are still betting that the political imperative to cut rates by Christmas will win

the day. With a general election likely in June or October next year, "it is important that as much good news is in the public domain by June and maintained until October," says Mr Steven Bell, of Morgan Grenfell's futures and options research team.

The timing is determined by the Halifax (Britain's biggest lender) mortgage rate fixing system. This is set each January and takes effect in April. As a result, this year's fixing avoided the mortgage rate increase in the first quarter. Unless there is a cut of at



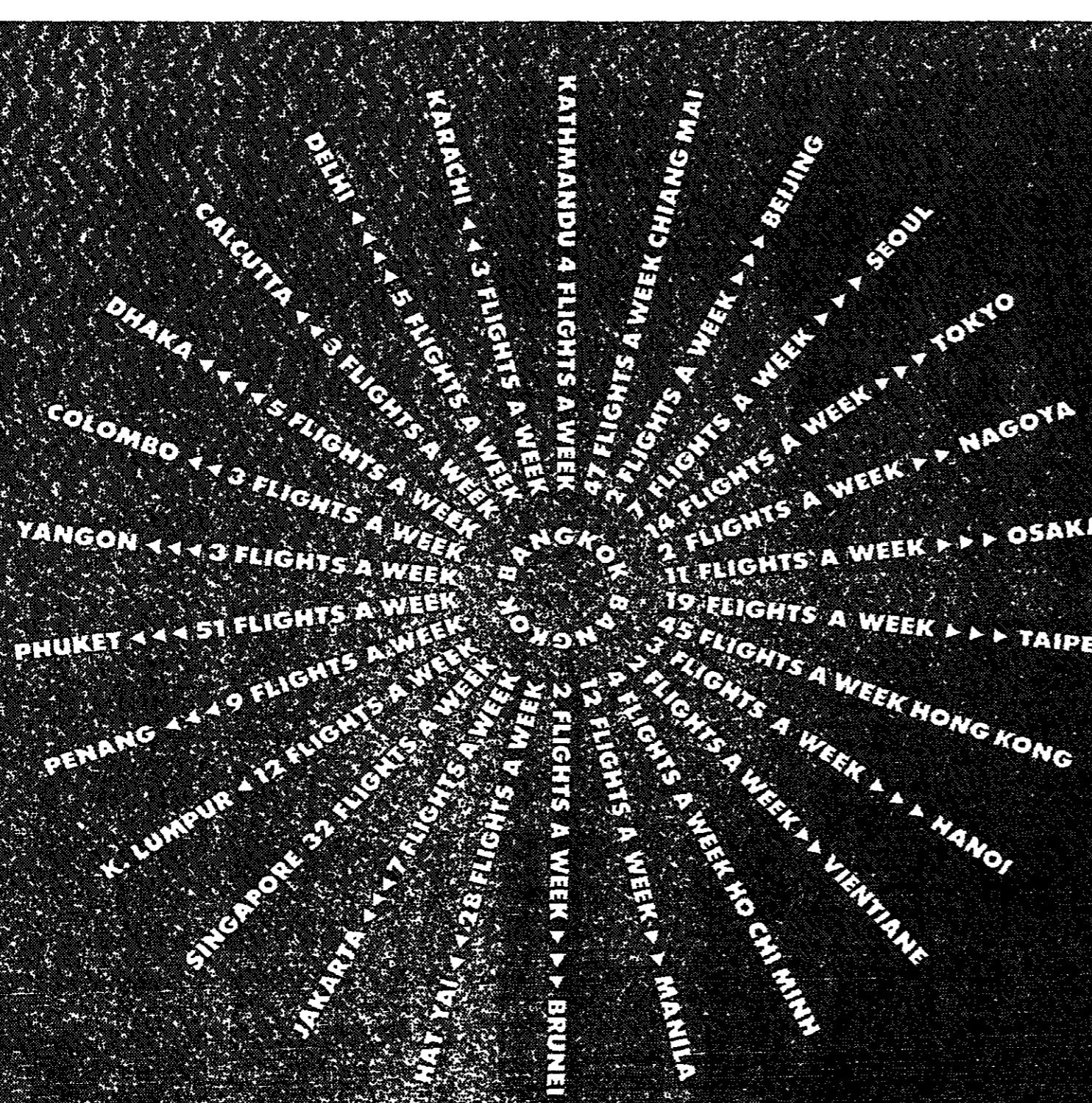
least 1 per cent by the Halifax 2m borrowers will face a double increase in payments, he says.

But worse than upsetting mortgage holders, from Mr Major's point of view, would be to cut interest rates only to have to raise them again soon after.

That could be forced on the Chancellor if the Bundesbank, the West German central bank, raised its rates. The bank meets on Thursday and could do so then although that is considered unlikely.

Alternatively, a multitude of domestic reasons such as a bad trade figure or a sudden run on sterling could have the same effect.

With sterling's plunge last Friday fresh in his mind, a base rate cut is likely to continue to be handled with great caution by the Chancellor.



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## UK NEWS

## CBI criticises scheme to deduct poll tax from pay

By Richard Evans

THE GOVERNMENT is to be asked to simplify its controversial proposals under which employers would collect poll tax payments from employees who default. Up to 2m attachment-of-earnings orders are expected.

Later this month the Confederation of British Industry will send Mr Chris Patten, Environment Secretary, ideas for simplifying poll tax regulations on deduction of payments from earnings.

The move follows growing pressure from the CBI and organisations representing small businesses and from payroll processing experts. They fear that the burden and costs of poll tax collection could become overwhelming for businesses.

Mr John Pollard, a CBI council member chairs the committee drawing up the report, said yesterday: "While we accept the scheme in principle, our aim is to minimise the burden on employers, and we shall be making recommendations designed to make the administrative work easier. Local authorities would also benefit from a more cost-effective system."

At present, employers across the country handle about 50,000 attachment-of-earnings orders each year, mainly for civil debts. The CBI estimates that up to 2m poll tax defaulters — or one in 18 of the working population — could have their earnings docked in this way.

A local authority will advise employers of the total poll tax debt outstanding, but it will be up to the company to discover



Chris Patten: will receive CBI's collection proposal

from tables provided how much each individual owes. Payment will vary from council to council, and a company could easily have employees living in a dozen or more local authority areas.

He added: "Employers are again being asked to act as collecting agents for the state, but, instead of making the payment to one agency, they are being required to send payments to a maximum of 367 local authorities."

"They will also undoubtedly incur the displeasure of any employees from whom deductions are made, with a consequential adverse effect on industrial relations," he added.

### Action group for asthmatics launched

By David Fishlock, Science Editor

ASTHMA is an underrated and under-managed disease that costs Britain over 2,000 lives and the National Health Service £200m each year.

Such is the message of Action Asthma, a group launched today in London. Professor Tim Clark, chairman, said the organisation, comprising chest physicians and GPs, aimed to educate doctors and

patients in how best to manage asthma so that patients could lead "a life free from symptoms, with as near normal lung function as possible."

The case rests upon a report commissioned from the pharmaceutical economics group of Glaxo Pharmaceuticals (UK), which showed that 2,213 people died in the UK from asthma in 1988 — 24 per cent more than

in 1981. In 1989, 60 per cent of the nearly 3,000 who died were female. One death in ten occurred in people under 35. Thus the incidence appears to be increasing, in spite of better medicines and a better understanding of the disease.

The report says asthma often remains undiagnosed or is misdiagnosed as bronchitis or another chest condition.

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## MANAGEMENT

Going public can be a painfully revealing process. The City's scrutiny of a small company's affairs is an intrusive and protracted process, which many find traumatic.

But it can also be a valuable exercise in highlighting inadequacies in the company's own management. Unchecked, these faults can spell disaster, particularly when the company is exposed to pressure from the City for rapid and unwavering earnings growth.

One company that came unstuck after its flotation was Sharp & Law, a shopfitter, which joined the unlisted securities market in 1987. Two years later, it discovered errors in its 1987 figures when payments for some large contracts had been double-counted.

Arthur Young, the accountants, who were called in to investigate, produced a report calling for improvements to the company's senior financial management, the appointment of a managing director, and organisational, systems and computer department review. The company never recovered, however, and went into receivership last year.

Hobsons, a Cambridge-based publisher, also got into difficulties a couple of years after joining the market. It came unstuck when a widespread failure of financial controls and difficulties with its computer system coincided with problems with acquisitions. It has since been bought by the Daily Mail and General Trust.

Diamond Group Holdings revealed its management prob-

## Preparing to go public

## The traumas of going through the City's scrutiny hoop

By Vanessa Houlder

lems even more rapidly. This car insurance company joined the USM in April last year in a fiasco placing by Allied Provincial Corporate Services. In October, its shares were suspended after problems in administration and handling claims at one of its subsidiaries led to a substantial loss.

Could cases like these be avoided by a more thorough scrutiny of the company's management and systems before flotation? Sponsor and accountants concede that occasional lapses do occur, but in general they stoutly defend the flotation procedure. Relatively few stock market companies went into liquidation in the 1980s, although many other casualties pre-empted the market by arranging a sale.

On the face of it, the process is decidedly rigorous. Even a small company merits a visit of several weeks from the accountancy firm which culminates in a long report about the management and business that can run to hundreds of pages.

It will include an analysis of the group's structure, history, competition, customers, suppliers, marketing, employees, and

management information and accounting systems.

The most common problems thrown up by this scrutiny concerns the financial management and controls. "If you have a good strong entrepreneur who has built up the company, often the back room has not kept pace with the company," says Graham Cole of Coopers & Lybrand Deloitte.

John Gregory of Beeson & Gregory concurs. "When we are visiting private companies with a view to their being floated, perhaps the weakest link is the finance director," he says.

Increasing attention is also being given to the company's strategy. "In the past, people tended to assume that because it was a very high profile company or had very good results, the pattern would continue and not look for alternative sources of customers or supplies," says Graham Cole.

This critique can be a grueling procedure for the company. However, the accountants generally go out of their way to make it as painless as possible for the client. Graham Cole insists that the reporting

accountants should not be viewed as policemen by the company. "We are there to support them. It is they, not the sponsor, who are our client."

But perhaps this rapport between the client and accountant can go too far. The accountancy firm may not want to jeopardise a valued relationship by being over-critical, particularly if the accountant is a small, local firm and the client is large enough to merit switching to a major firm.

Companies using one of the Big 6 firms of accountants outlined those using smaller firms by two to one, according to KPMG Peat Marwick McLintock. Moreover, if the company decides to use a merchant bank as a sponsor (as about a fifth of them do) they find they will be guided very firmly towards one of the major firms.

The lack of experience of a small firm of accountants will be a telling problem for a merchant bank to overcome," says a banker. "It would show itself in judging systems and whether or not the business is capable of being run to the

standard of a public company. It is a matter of being able to say, hand on heart, this company is ready for flotation."

The one-off nature of the accountants' report is another possible concern. The accountants will highlight weaknesses and recommend improvements, but it is up to the company to implement them. "You then have to believe that it has happened," says Sara Wigglesworth of Lain & Cruckshank.

As well as the accountants' declaration that the company is ready for flotation, the sponsor is likely to make its own assessment. Usually this will rely on the view of the in-house analysts, although in obscure industries, an outside consultant will sometimes be employed.

The sponsor will pay particular attention to the manager's CVs and details about suppliers, customers and controls. John Gregory of Beeson & Gregory, the broker, asks the companies for its management accounts and cash flow projections on their first meeting. "If they say 'how do you spell

not take on a company unless it considers that it has sufficient ambition. "We would turn them down if we thought their reasons are misguided, whether or not the management team is good enough," says Tim Seymour of Gilbert Elliott.

The result of this vetting process may be that the company is singularly short of choice in selecting its broker. If a small, ambitious company wants a large broker with good placing power, it may find the list of compatible brokers a rather short one with several possibilities ruled out because they act for the company's rivals.

But even if the company gets over the hurdles set up by the accountants and sponsor, it may still be brought to a juddering halt by the Stock Exchange's vetting procedures. Spice, the motor parts distributor which has just gone into receivership, was scuppered in its first attempt to join the USM when the Stock Exchange found that the financial controller had been convicted of fraud.

But perhaps the greatest test of the entire process is whether a company is saleable to the institutions. The stock market's current indifference to small companies and the difficult economic climate means that the days when flimsy, immature companies could be valued at huge sums are over. Jumping through the hoops posed by the accountants and sponsor may be one of the least demanding aspects of being quoted.



that?" you know the company is not ready for flotation." he says.

One reason for a broker carrying out its own checks on a potential client is that it will help it to sell the shares.

"There is no substitute for the practitioners' feeling of the cloth," says John Stanton of BZW. "They will be prepared to sell it with more enthusiasm and commitment."

But a more important reason for the sponsor's scrutiny is to make sure that the client will

not disgrace it by getting into a few mistakes.

Gilbert Elliott, a financial services house, for example, will

analysis and inferential reasoning: experience in teamwork, and interpersonal skills. They should also possess intellectual curiosity, a managerial point of view (defined as a sense of satisfaction with work accomplished); respect for the individual and for the value of diversity; self-awareness and self-direction; and, concern for the consequences of one's actions.

The GMAT is the body responsible for the GMAT test, an examination used not only for admission to US universities to read for an MBA but in Europe as well. The GMAT as currently formulated is extremely important in the selection process.

The test of this report will be the extent to which the GMAT modifies its examination to help identify the type of individual which the report believes will make the manager of the future.

Available from: Graduate Management Admission Council, 11601 Wilshire Boulevard, Suite 760, Los Angeles, CA 90025 US.

use recruitment for MBA tuition. MBA students should possess a broad understanding of the "economic, social, political, and technological contexts of global business."

To this end the study says that US colleges and universities should consider requiring aspirant MBS students to have studied basic economics, accounting and quantitative methods. This would allow flexibility in an already crowded postgraduate MBA curriculum.

The study also advises colleges and universities to be more discriminating in the selection of candidates for an MBA. In so doing it produces a sun, moon, and stars wish list but provides little guidance on how to assess candidates.

Aside from basic literacy and numeracy skills, prospective students should possess abilities in

practices in which some see "the pedantic sterility of a second class science" – one that is too refined to be applied to the problems of a society as complex as ours."

Business school academics must move off their respective campuses and spend more time in organisations, observing business practices in action. The research ought to be relevant to managers. The study says that what is needed is a "balance between academic rigour and managerial relevance."

The study suggests that the measure of academics and their prospects for tenure and promotion ought to be based less on the principle of publish in referee journals or perish and more on the basis of the relevance of their work to the business world.

It recommends a change in grad-

## 'Academic rigour and managerial relevance'

Simon Holberton reports that US business schools seem to be addressing the challenges facing them

Management Education and Development which was critical of American business schools. The business schools' successes since the 1960s had made them complacent and self-satisfied, they wrote.

Porter and McKibbin argued that business schools should offer students a more integrated curriculum that included the teaching of "soft" skills, like people management and leadership, along with the "hard" functional skills like finance and marketing. Moreover, this curriculum should be framed in the context of changing and uncertain global business environment.

As US business schools face the 1990s and beyond there is a sense that some of the criticisms to which they have been subjected have been heard. A recent report sponsored by the Graduate Management

Admission Council (GMAC) – the body which oversees the GMAT examination – echoes many of Porter's and McKibbin's criticisms.

The report, entitled "Leadership for a changing world: the future of graduate management education," was written by a group of 23 business school professors, which called itself the commission on admission to graduate management education.

It says that the challenges facing US management education are removed from those facing it in the late 1950s. Then, two sponsored studies – those of Robert Gordon and James Howell for the Ford Foundation and the other by Frank Pierson for the Carnegie Foundation – addressed issues of the lack of quality in faculty, research, curricula and students.

Today, business schools and their students face problems and challenges on a broad front. The report says there are three forces that will affect schools and their students in the future: accelerating rates of change and complexity in technology; globalisation of markets, communication, and human resources; increasing demographic diversity.

These broad trends of development are inter-related and encompass dozens of other difficult issues, including more complex ethical problems, changing political processes, the role of non-market institutions, and the relationship of business and government," it says.

For the American business school this means reformulating the MBA curriculum, devising a new set of faculty priorities and moving away from current teaching and research

practices in which some see "the pedantic sterility of a second class science" – one that is too refined to be applied to the problems of a society as complex as ours."

Business school academics must move off their respective campuses and spend more time in organisations, observing business practices in action. The research ought to be relevant to managers. The study says that what is needed is a "balance between academic rigour and managerial relevance."

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## LEGAL COLUMN

## Hong Kong should plan for full economic union with China

By Christopher Smith

THE PEOPLE of Hong Kong are relying for future prosperity on the "one country, two systems" concept reflected in the 1984 Sino-British Declaration now embodied in the Basic Law.

The Sino-British Declaration and the Basic Law allow the Special Administrative Region of Hong Kong to maintain control over its external trade and economic relations, to be a separate customs territory and to participate as an independent entity in international organisations and trade agreements.

The declaration also states that Hong Kong will "retain the status of an international financial centre, and its markets for foreign exchange, gold, securities and futures will continue. There will be free flow of capital. The Hong Kong Dollar will continue to circulate and remain freely convertible."

To complement this trading and financial autonomy from mainland China, Hong Kong is to have its own legislature, judiciary and legal profession.

On the other hand, the "foreign and defence" affairs of Hong Kong are to be placed squarely in the hands of the Central People's Government in Peking.

Against this background it would appear problematic for Hong Kong to be considered separately from mainland

China in 1984 as it would be now. Another fact that could not have been foreseen in 1984 was that the trading relations of Hong Kong and south China, even prior to 1997, have become so closely integrated that it is increasingly difficult to disentangle one from the other.

The scale of Hong Kong's dependence on China for its processing and manufacturing work is illustrated by the fact that Hong Kong's trading performance for the first half of 1990 showed that for every dollar's worth of domestic exports it shipped to the world market, it shipped almost two dollars' worth of re-exported goods from China.

By contrast, in 1984 Hong Kong's own domestic production exceeded its re-exports from all other countries combined, including China.

Against this background it would appear problematic for Hong Kong to be considered separately from mainland

China in the contexts of international trading organisations and agreements.

The province of Guangdong, according to a recent report by the Nippon Credit Bank, is on the verge of an economic take-off, benefiting from proximity to Hong Kong, continuing foreign investment, a comparatively diverse economy and an export-oriented industrial sector.

The Basic Law ought not to be regarded as the complete answer to Hong Kong's future. While it incorporates basic safeguards which the British Government and the people of Hong Kong felt necessary to protect Hong Kong and its population from excessive Chinese interference, something else is needed to enable both Hong Kong and China to benefit from a higher degree of economic integration than was previously thought.

In an era when trade is arguably the most important consideration of all between foreign states, one may fairly question how, in practice, the division of foreign policy and external trade policy between Peking and Hong Kong can possibly work.

Trade disputes, nowadays, are just as likely to lead to armed aggression as ideological differences.

This trend in world affairs, accelerated by the changes in east-west relations during the last 18 months, would not have been as apparent to the drafters of the Sino-British Declaration

as possible may further exacerbate the situation.

Hong Kong, striving to maintain its individuality, could end up as being neither a true part of China nor a territory with any significant measure of international independence. Thus foreign traders may prefer to deal directly with the major manufacturing centres and markets are situated and financial markets would transfer themselves to other Asian centres where allegiances and decision-making lines are less ambiguous.

If this happens there will be no shortage of aspirants in south-east Asia to benefit from Hong Kong's decline. These will include Taipei and, in China itself, Shanghai and Guangzhou. Shanghai, in particular, was the source of much of Hong Kong's trade and financial talents.

While its current attempts to restore itself as a financial centre may not seem too serious a proposition, the development of a genuine securities market in China together with some relaxation in banking property investment and exchange control laws, may provide Peking with a very real alternative contender to Hong Kong for its future financial centre, especially if the latter proves to be politically troublesome.

The province of Guangdong, according to a recent report by the Nippon Credit Bank, is on the verge of an economic take-off, benefiting from proximity to Hong Kong, continuing foreign investment, a comparatively diverse economy and an export-oriented industrial sector.

Post 1997 a plan on these lines is almost certain to evolve in any event as the impracticalities of the "one country, two systems" approach manifest themselves.

But even to wait until 1997 will be fatal to the future of Hong Kong which will continue to be weakened by emigration of its most talented residents, outflow of capital, local companies re-locating abroad and a demoralising scramble for alternative passports.

One answer might be the creation of an experimental economic union between Hong Kong and the Guangdong special economic zones in Shenzhen and the Pearl River estuary.

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## ARCHITECTURE

## Education should turn over a new leaf

A few weeks ago a man with a broken arm stood up in the drawing room of the 19th century Gothic President's Lodgings at Magdalen College, Oxford and made a short speech. The Prince of Wales, in modest and self-deprecating mood, said that he hardly felt qualified to say anything, surrounded as he was by the tutors and students of the first Prince of Wales's Summer School in Civil Architecture. But there were things he wanted to make clear about his concern for the future of architectural education and freedom of discussion. Prince often seems doomed to be misreported and misunderstood and so it is worth looking carefully at his words.

First of all, the Prince said that for him discussion and argument are the basis of all education. He would have agreed with the new professor of architecture at Cambridge who said recently: "Universities are places for debate not dictatorship." The Prince said in his opening speech that his school "is not another round in the battle of styles that tends to go on ad nauseam. It's not just an exercise, and I repeat this, in classical architecture which is so often what people say I am trying to pursue."

I believe that the Prince of Wales is trying to restore a balance to the educational world so that materialistic considerations of architectural technique can be taught alongside the search for spiritual values. As he said in Oxford what he hopes his school will do, "is remind students that there is something more profound than ourselves which governs the laws of the Universe, that there are certain timeless principles and values which still need to be taught even in an age of technological wizardry and and supreme materialism." These principles are "the ones related in intricate and sometimes mysterious ways to

certain mathematical principles of proportion and of harmony, as in music, as with the use of words in order to create sentences of beauty which for some reason or another, inspire and appeal to something deep inside each one of us. It is, I believe, important to learn the grammatical or mathematical principles before you can construct anything. As Einstein recognised, mathematics is the language we humans use to describe what are seen to be the universal and mysterious laws which govern what we ultimately call beauty."

This is a tall educational order. But it is not an unreasonable one. There were some 200 plus applicants for the 23 places at the Summer School, which suggests a need for a new kind of architectural education. But it is not just the Prince of Wales who is unhappy about architectural education. The Government and the profession are also very concerned. It takes a long time for architects to be trained. They need three years on a degree course, then two years on a post-graduate course and two years of professional experience training in an architect's office. The Department of Education and Science in a consultation paper issued to architectural schools, the Architects Registration Council of the United Kingdom (ARCUK) and the Royal Institute of British Architects in August, has questioned why it takes seven years to train an architect. The Department wants to know why it should take more than four years.

The DES is very critical of the present state of architectural training and many of the general public must wonder what good such a long training does when they look at so many mediocre new buildings and badly planned developments produced by trained men throughout the country. The DES warned some time ago that the mandatory grant for students was



This painting by Rita Wolff is called *The Architect's Dream* but it could represent the current collapse of the educational structures of architecture. It can be seen in an exhibition entitled "Architecturally inspired" at Long and Ryle's Gallery, London, from September 6.

likely to be cut back to funding for only three years but the architectural schools seem unwilling or unable to come up with imaginative alternative shorter courses. In the EEC most full time architectural courses last for five years.

As the profession, the schools and others agonise over how good architectural education can be afforded, it is time to recognise how vital well educated architects are to the future of civilised life. But it is also surely time to realise that our environment is much too important to be left to a badly educated architectural profession. Why is it, for example, that town planners and architects are educated entirely separately? Why are the building trades, engineers, surveyors and landscape architects all educated in their own little self contained compartments? Have you ever met an architect who really knows anything about plants or trees? Why is history taught reluctantly? And why are so many architectural diploma shows

full of incomprehensible large scale and pointless projects.

There is one area where the woeful ignorance of architects has been damaging to our surroundings for a very long time: the majority of architects do not understand the economics of development. It is not unknown for an architect to produce a scheme for a client that is some 40 or 50 per cent above the budget. How many property developers teach in architectural schools? Why are the most basic essentials of building business practice and management not taught to architects from birth? I have often wincing with pain when architects demonstrate lack of financial acumen in front of important clients. The creation of a creative caste of beings who are remote from reality is a fast moving intelligence in small scale problems - housing, infill, detail, ornament, decoration, furniture, fittings. This requires the painstaking construction of a vocabulary with which architecture can be made.

Architectural education does need to be more in touch with reality. This does not just mean commercial reality, but "real" reality. It is an old cliché but a true one. No trained

architect would consider for one moment living in the tower blocks and grotesque estates that make up too much of the public realm. So why were they built? I am sure they are part of the result of the *folie d'grandeur* encouraged by so much architectural education that concentrates for months on giant meaningless projects. I agree with Professor Theo Crosby, who has just been made the new Professor of Architecture at the Royal College of Art, when he says that what is needed everywhere is a fast moving intelligence in small scale problems - housing, infill, detail, ornament, decoration, furniture, fittings. This requires the painstaking construction of a vocabulary with which architecture can be made.

Small things add up: the modest start of the Prince of Wales's Summer School offers some directions and enforced educational cuts can help to concentrate the mind...

Colin Amery

## SPONSORSHIP

## Working for cities

The two most current themes in the arts in the UK are the role of the Arts Council as an advocate for the arts rather than just the distributor of grants, and the importance of the arts as the re-generator of the inner cities. They will combine nicely next week when the planned Arts Council-British Gas Awards, "Working for Cities" are announced.

Or rather not the actual awards - they will be presented in April - but details of the scheme. British Gas is putting up the money to administer the idea, which is aimed at developers and local authorities, alerting them to the contribution that the arts can make to bringing back life and prosperity, to the run down hearts of many of our once thriving industrial cities.

It is a concept that was first developed in the US, in places like Baltimore and Boston, but it has already proved its worth in the UK, most notably in Glasgow and Bradford. As well as persuading developers to incorporate works of art into their new investments from the start, enhancing the environment, (and land values) the Awards, which will go to arts venues, highlight the role of arts festivals in bringing pride and prosperity, and the opportunities for turning derelict buildings into artists' workshops, studio theatres, and other uses which engender jobs, visitors, restaurants, and, potentially, profits.

Among the schemes that could well qualify for an award would be Dean Clough in Halifax where a redundant textile mill has been transformed into an artistic jewel, with workshops and performing spaces and spin off benefits for the wider neighbourhood. American companies like Citicorp, as well as the British banks, have been active in using the arts for inner city regeneration and this is a first for British Gas, an increasingly active sponsor of the arts.

The role of the chairman in involving a company in arts sponsorship is paramount and, in Robert Horton, BP has a chief executive who, from his American experience in Cleveland, is a committed believer in business taking an active part in investing in the arts for community enrichment. Next Friday on the South Bank the new Minister for the Arts, David Mellor, will open the BP Oil Sculpture Exhibition, which was devised to improve the working environment.

The highlight will be a cube shaped abstract which Nigel Hall has sculpted to go outside

the new headquarters of BP Oil at Old Street. It is the winner of a competition which attracted almost a hundred entries for the £10,000 first prize, and which involved BP all told in a sponsorship approaching £50,000. Another £50,000 will go on acquiring art for the new HQ and the company is taking the brave step of letting its work force choose the multi-media artifacts which will decorate it.

Oil companies remain prominent arts sponsors. Texaco is making its biggest commitment to date, putting up around £100,000 to make possible a series of concerts at the South Bank throughout the new season which will bring regional orchestras to the capital playing alongside international virtuosos.

Shell has a much longer arts commitment, sponsoring the LSO for 14 years. Most of its £300,000 annual investment goes into a regional tour and into scholarships for young musicians. But it has now added an annual commission for a new work by a British composer. On September 20 at the Barbican James Galway will play with the LSO a 25 minute flute concerto which has been written for him by John McCabe.

Business in the Arts is moving into a higher gear. It was established, under the umbrella of ABSA, to encourage businessmen with particular skills - in accountancy, computers, marketing - to devote some time to a local arts organisation which might need help in such areas.

A later refinement was designed to enable arts administrators to attend management courses. This scheme was half sponsored by English Estates, with the rest of the money coming from the Arts Council or the Museum and Galleries Commission, and from the arts managers' own organisation. The first six winners of the bursaries have been announced.

They are Louise Honeyman of the London Mozart Players who is going to Henley Management College; Barbara Matthews of Cheek and Jowl who will attend Sundridge Park which is also taking John Summers of Northern Sinfonia and Sue Underwood of North of England Museums; Margaret Saxon of the New Victoria Theatre, Newcastle (Open Business School); and Kath Abrahams of Bloomsbury Theatre (Ashridge).

Antony Thornecroft

## Nureyev's Overcoat

## THE PLAYHOUSE, EDINBURGH

It is sad to see a good theatrical idea come a cropper, a 90-minute-seems-like-90-years, dozen-scene cropper, replete with ballroom, tireless cast, and a star flailing around in an acreage of self-indulgence. Such is the fate of *The Overcoat*, in which Rudolf Nureyev appeared last week with the Cleveland San José Ballet at the Edinburgh Festival.

The idea of a ballet based on Gogol's story of the down-trodden clerk who acquires and then loses a glorious new overcoat is fine. Had Flemming Flindt made a piece as taut and nightmarish as his view of Ionesco's *The Lesson* (in which Nureyev was excellent), then one might salute the enterprise instead of deplored it as self-important nonsense which serves Nureyev badly and the Cleveland Ballet even worse.

The piece is, of course, that most dubious of theatrical pleasures, a star vehicle. The dancer is in allowing the star's recognised qualities to dictate the terms. There can be no challenge other than that of incorporating every possible trick by which he is known to his audience; no logic save in battenning on the star at every moment; no reason, other than the star's presence. Hence *The Overcoat's* interminable and flatulent activity, the corps de ballet industriously rhubarbing as prole or as guests at what must be the dullest ball ever staged in the history of ballet, while Nureyev, got up like

Chaplin in baggy pants and quickly-tripping steps, does everything except recite *Excelsior* while riding a bicycle.

The character of Akaky Akakievich, the middle-aged clerk, is one which could offer Nureyev the right challenges at this juncture in his career. There are possibilities of pathos, of wild dreams, of a finale not unworthy of Petrushka, but instead he is given broken-winded incident, dramatic inconsistencies, and must force himself through disjointed classical routines (in one he is partnered, ballerina-fashion, by a fellow clerk, in another he is Floundered to his coat as Vision of Aurora).

No-one, except apparently Nureyev, expects Nureyev to dance as he did twenty years ago. The result is painful to watch as single classic steps are slammed at us, and unnecessary. The passing years may have eroded youthful prowess; they have brought an artistry which merits far braver creations - and far greater rewards - than are provided by this portentous nonsense. Nureyev's skills deserve roles which do not parody and feed on his past identity, but explore the present and future of his talent.

The Cleveland-San José troupe also showed on this first, Nureyev's-coat-tails visit, a version of *Coppélia*. Nureyev, of course, was Dr Coppélia, spirited in manner albeit there was a suspicion

that he thought his public had caught him slumming. Dennis Nahat, company director and choreographer, has opted for a completely new text which bears no trace of the old and hollowed choreography. Nahat has the skill to bring this off - he has been fluent neoclassical creator - but this Americanised recension has acquired a good many incidental quaintnesses that traditionalists will resent.

There is a mass of archly named characters, archly played, to most of whom I would willingly take a meat cleaver. The extreme vivacity of the cast - no grins but by design which, if it were any brighter, would be having a nervous breakdown. But there are real choreographic rewards under the garish colours, the insane hats, and the determined merriment: a well-reasoned "Bar of corn" sequence, a pretty pas de deux for Swanilda and Frantz, and dashing dances for their statutory friends. The clear shaping of the choreographic incident here is matched by the sound classic style of the dancers. Only 14 years old, shared between its titular cities, the company is a true ensemble, and in Karen Gabay, Laura Moore and the mercurial Raymond Rodriguez (who all shone in leading roles), and in soloists and corps de ballet, we could see a happily disciplined troupe.

Clement Crisp

## The True Story of AH Q

## SOHO POLY

The Soho Poly Theatre is in a cellar, almost a dungeon, just off London's Oxford Street. At the performance of Christoph Hein's *The True Story of AH Q* on Saturday evening, there were about 18 people present, so the theatre was nearly half full. This relative lack of support is a pity, because it is an interesting play, extremely well done.

Hein is one of those East German writers who, like Christa Wolf, the novelist, managed to live with the old regime. He wrote *The Distant Lover*, a very good short novel which has been recently translated into English.

Living with the regime did not mean that he was uncritical of it. On the contrary, some of the satire is quite sharp and the social observations highly pointed. It means that although he knew all about the lure of the Federal Republic, he preferred to live in the Communist east, warts and all. It will be fascinating to see how such writers react to the new, united Germany.

*The True Story of AH Q* is a fantasy set in the storage room at the top of a temple, the time supposedly being the present. Two men, one an intellectual, the other uneducated, are virtually imprisoned there under the fiction that they are mendicants. The uneducated is one AH Q, played by Crispin Letts. "AH" is pronounced as the interjection rather than as the initials (say) of Adolf Hitler. The "Q" remains enigmatic. Presumably it is a symbol of the pursuit of a quest that is never wholly accomplished.

AH Q rapes a nun called Maria. She says that she has forgotten what her original name was; the other characters have forgotten their origins as well and no longer have much idea of what they are looking for.

The rape takes place on stage.

Plainly the real setting is an East German village that has known feudalism, religious tyranny, nazism and communism and has never much changed whoever is nominally in charge. There is much talk of anarchy, revolution and the case for law and order. Indeed, a revolution occurs while the play is in progress. All that happens is that the Lord of the Manor comes to be called the Revolutionary Lord of the Manor, the word "revolutionary" is also added to the local Convent of the Immaculate Conception.

AH Q rapes a nun called Maria. She says that she has forgotten what her original name was; the other characters have forgotten their origins as well and no longer have much idea of what they are looking for. The rape takes place on stage.

Malcolm Rutherford

The subsequent execution of AH Q takes place off, executions in the market place being a regular feature of village life whatever the regime. The only difference seems to be the style in which they are carried out.

Told like that, the material may sound unpromising.

Performed by the Midnight Theatre Company and directed by Rebecca Wolman, it works on stage.

Given events in Germany, this kind of play may be the last of an era. *AH Q*, however, is worth seeing as a reminder that the German Democratic Republic was a more complex society than is sometimes supposed. The old East German authorities were notably sparing in the number of productions they allowed.

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## Fleetwood Mac

## WEMBLEY STADIUM

Wembley's summer of rock ended on a low note on Saturday with Fleetwood Mac. Where the Rolling Stones had cocked a snook at ageing, and Madonna at propriety, Fleetwood Mac could only offer introspective speculation.

Do the four (fairly) original members of the band - Mick Fleetwood, John McVie, Christine Perfect McVie and Stevie Nicks - whose personal and professional entanglements make *Fleetwood Mac* seem as mundane as *The Archers*, ever communicate with each other; can John McVie, a shadowy remote presence, talk to himself; what does Stevie Nicks do in the wings between each song, apart from changing shawls, and is she trying to sing flat; does Mick Fleetwood realise that what he unleashes on the world when he goes solo and taps rhythms out of his wire up body; and can Christine Perfect keep smiling when sharing a stage with such a bunch of detached weirdos?

At least the quartet has virtually given up communicating with the audience. They leave that to Billy Burnette, who with Rick Vito, provides the best of their old music.

Antony Thornecroft

## The Evil Doers

## THE BUSH, LONDON W12

Chris Hannan's new play for the Bush ends with Tricky, a 15-year-old heavy metal fan, trying to kick start into life her mother who has dropped into a drunken stupor. It is billed as a "contemporary city comedy," and since the setting is Glasgow this might well be the local idea of family support.

"In the end we are all dead" is the reassuring refrain of Tricky's best friend Susan, and seems to reflect Hannan's view that life for the Glasgow poor is so awful that you might well as well screw out as many laughs as possible.

Sammy (Tom Mannion), Tricky's father, is trying to do his bit for Glasgow on a bare stage, and Sharon Muircroft and Katy Murphy, as the well contrasted girls who have not quite lost their illusions, are spot on. Lucy Aston plays the journalist, a wimpy southerner. Once journalists were invariably stage heroes; now they are as despised as property developers.

Antony Thornecroft

## MALTA

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For a full editorial synopsis and advertisement details, please contact:

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## Devolution Soviet-style

IT HAS TAKEN five years for the Soviet Union to draw the appropriate conclusions from its inextricably intertwined political and economic crisis. But last week's dialogue between Soviet President Mikhail Gorbachev and Mr Boris Yeltsin, President of Russia, appears to mark the beginning of a new, concerted effort to create the laws, institutions and mental attitudes required for a fundamental switch to a market economy.

Five years is a long time in anybody's politics. But it is a short time to have accomplished what many thought was impossible - the peaceful demolition of the communist party's monopoly over politics, the economy and society. Without prior emasculation of communist power, the sacrifice of socialist sacred cows would not have been possible in the economic sphere.

But delay in tackling structural problems implicit in the very nature of the Soviet planned economy has led to a severe deterioration in economic performance. The central planners may have lost much of their power to control and direct. But the absence of an alternative system has resulted in a cumulative breakdown in existing patterns of supply and distribution.

Up to now the Gorbachev regime's only positive economic results have been by-products of its brilliantly successful foreign policy. The withdrawal from Afghanistan and other Third World embargos, the liberation of eastern Europe and a new era in East-West arms reductions have all lightened the heavy external burden on the Soviet economy.

### Full benefit

The world's largest oil producer, Russia will benefit from higher world oil prices as a result of the Gulf crisis and from the conversion of intra-Comecon trade to a hard currency basis from January 1. But with output falling and costs rising, the only way to extract the full benefit from oil and other natural resources will be to open up the Soviet Union, and its constituent republics, to the operations of the multi-national oil companies and other foreign corporations which have created the

post-war global economy.

Re-integration of the Soviet Union into the world economy is now the stated aim of the Soviet leadership. Experience elsewhere indicates that this will be facilitated by creating the conditions for multi-national corporations to form Soviet subsidiaries and integrate them into their existing global operations. It will take time for inexperienced Soviet managers to find their own way into the wider world.

### Implemented reforms

But this will only happen if the reforms now slated for implementation within the "500 day" timetable originally drawn up by Mr Yeltsin's economic team, and now adopted by Mr Gorbachev, are implemented.

Full details are still awaited, but legislation promised within the next three months alone includes wide ranging laws on private ownership, taxation, banking, stock markets and social security regulations. These are to be followed by large scale privatisation and the sale of housing and agricultural land. Next comes de-control of prices and, as yet ill-defined, "stabilisation measures" to deal with the unemployment and acute social tensions which will inevitably accompany such an ambitious programme.

One of the novel features of the joint economic programme is the involvement of 13 of the 15 constituent Soviet republics in the discussion, if not the formulation, of the contents. This reflects both the waning power of the centre and the rising power, or aspirations to power, of the recently elected republican parliaments, and indeed of elected city bosses, not only in Moscow and Leningrad, but also in smaller cities and autonomous regions.

The latest economic programme is not one which can be imposed. Neither will it deflect the demand for independence and national sovereignty. But after 70 years of stabilising centralisation it is time for a programme which might allow all parts of the crumbling empire to re-organise themselves on more rational, market orientated lines.

## Bleak prospect for coal

PRIVATISING BRITISH Coal ought to be easy. Subject as it is to fierce competition, British Coal hardly needs the complex regulation accorded the big public utilities. The trouble is the opposite one. The industry faces so much competition, it will, in consequence, remain one of the main industrial headaches for the next Government.

That much is clear from the dismal results published last week. Lord Haslam, British Coal's chairman, admitted his disappointment after unveiling £135m in operating profits, down £285m from the previous year. The nationalised corporation only managed to record an operating profit thanks to its opencast operations, which accounted for less than a fifth of its output. British Coal's 73 deep mines notched up combined losses of £149m - and the industry still has to face a host of fresh problems.

The most important is the desire of the soon-to-be-privatised electricity industry to lessen its dependence on British Coal. As anticipated, National Power and PowerGen, the two new generating companies, have a clear incentive to cut their fuel bills. Unlike the Central Electricity Generating Board, their monopoly predecessor, which could pass higher generating costs straight through to customers.

National Power and PowerGen intend to increase their imports of low-cost foreign coal. They also plan to build a wave of smaller gas-burning power stations. This twin-track strategy offers the two generating companies not just cheaper supplies. It also promises benefits on the environmental front. With a lower sulphur content than most British coal, foreign coal can help the generators meet targets for combating acid rain.

### Clean gas

So too can the burning of gas, which has the added benefit of emitting relatively little carbon dioxide, the main contributor to global warming. Taken together, foreign coal and gas will reduce the need to install expensive equipment to scrub the sulphur from their power station emissions.

In consequence, National Power and PowerGen have told

the European Community's Common Agricultural Policy (CAP) once again appears to be in serious disarray.

Just two years after the introduction of "historic" reforms designed to limit excess farm spending once and for all, mounting food surpluses are threatening to blast an embarrassing new hole in the EC budget.

Some of the problems - the embargo on trade with Iraq and disruption caused by East Germany's preparation for membership of the EC - may well prove temporary and sort themselves out in the next few weeks.

But even taking an optimistic view of these difficulties there is no escaping that the situation facing Agriculture Commissioner Mr Ray MacSharry as he returns to his desk in Brussels today is bleak in many ways.

Butter and beef "foothills" (if not yet mountains) have ominously reappeared over the summer months; sheepmeat prices, most notably in France, have all but gone through the floor, and international market conditions, combined with the falling dollar, have sharply increased the cost to the Community of exporting its unwanted wheat.

"At least there is a chance that we might be able to reduce our (wine) alcohol stocks in the foreseeable future," a senior Commission official said with unintended ambiguity as he pondered the grim outlook for EC market managers last week.

At this stage few know and fewer wish to discuss the financial implications of the latest troubles for the CAP. There is no danger of overshooting the 1990 budget - in large part because of the accounting rules of the Community - but it seems highly probable that provisional Commission spending figures for 1991 will soon have to be hurriedly revised.

The preliminary draft budget for next year, which was published in July, projected that EC farm support would cost around Ecu30.3bn (£20.8bn) out of total spending of Ecu55.405bn - comfortably within the overall "guideline" of Ecu32.51bn rigidly fixed by heads of government at the EC summit in February 1988.

Ahead, however, there is a corridor that at least another Ecu1bn will be required for livestock subsidies in the year ahead and fears are being voiced that some cherished principles of budget discipline - briefly the Brussels buzzword before monetary and political union took its place - may ultimately have to be breached.

At the very least it seems likely that Mr MacSharry will have to ask member states for permission to shift resources between "budget lines" (that is, from an underspent sector to an overspent sector) in a manner certainly not intended by architects of the recently reshaped CAP.

The political and economic consequences of all this are just as intriguing with the final lap of the international trade talks known as the Uruguay Round looming into sight.

Agricultural subsidies have been a central theme of these negotiations, of course, and the EC - which funds farmers to the tune of Ecu50bn a year if high consumer prices as well as taxpayers' contributions are taken into account - has come under fierce political pressure to make substantial cutbacks in support.

Brussels' apparent stubbornness has disappointed and dismayed many observers, notably in the US, where politicians and farmers alike fail to understand the power and influence which the EC farm lobby continues to wield. It may be inconceivable to think of the British Prime Minister Mrs Thatcher openly rallying to their cause - but Mr Helmut Kohl, the West German Chancellor, Mr Michel Rocard, the French Prime Minister, and even the Dutch leader Mr Ruud Lubbers quite frequently telephone Commission President Mr Jacques Delors to complain about their farmers' plight. Experience of 1988 sug-

gests that internal financial pressure is much more effective than international opinion in concentrating attention on the excesses of the CAP. The budget alarm bells now ringing in Brussels could yet have a decisive bearing on the wider global efforts at agricultural reform.

Right now, it is enough to remark that recent developments in the chief commodity markets - beef, sheepmeat, butter and grains - have cruelly but vividly exposed the myth of thorough EC agricultural reform.

Not only are most of the painfully negotiated mechanisms known collectively as "stabilisers" proving too weak to keep spending adequately under control, surpluses previously as highly visible as the infamous food mountains are now clearly seen as having been diverted away from the public gaze in the last couple of years in the form of heavily subsidised export sales.

The crisis in the beef market - highlighted by the financial problems facing the Irish beef "baron" Mr Larry Goodman - is probably the most serious and certainly the most notorious of them all.

EC production this year will be about 200,000 tonnes more, or 28 per cent higher than last year, reversing a downward trend started in 1987 and upsetting the previous broad balance between supply and demand. Prices have been under further pressure because of imports of live cattle from East Germany (where dairy farmers are adjusting their herd sizes to keep within their new EC milk quota), from consumer fears about "mad cow disease" or BSE, and from the loss of valuable export markets in the Middle East (Kuwait and Iraq normally take around 70,000-75,000 tonnes per year,

mostly from Ireland).

In theory, the reform of the regime finally agreed in January 1989 was designed to restrict EC purchases of beef through the "intervention" system and thus to prevent stocks hitting the roof as they did in 1987 and 1988 when they peaked at more than 800,000 tonnes.

Notwithstanding the measures introduced, the beef mountain has risen from less than 100,000 tonnes in April this year to more than 300,000 tonnes today, of which a record 50,000 tonnes was "taken in" in one go last week. Prices are now so low in Ireland

and the UK that the so called "safety net" has come into play requiring the EC to accept unlimited quantities from these regions at 80 per cent of the official intervention price (Ecu274.4 per 100kg). Officials fear that at the next fortnightly "tender" they may be forced under the rules of the regime to prop up French and German markets in the same way.

Paying subsidies to beef traders to bridge the gap between high European prices and lower world market prices is ultimately a cheaper instrument of market management than stockpiling because the EC saves on the storage costs. But July's decision to raise these export "refunds" has to a large extent been frustrated by developments in the Middle East, and

many in Brussels as a model for other sectors, despite the fact that the Community still produces 150 tonnes of milk more than it consumes and forked out Ecu3.2bn in an emergency operation agreed in 1988 to melt down the notorious butter mountain.

EC member states were persuaded to swallow that deal as a "one off" clearing of the decks - a policy which seemed to be working as international dairy prices significantly hardened and new curbs served to keep surplus butter and skimmed milk powder out of EC stores.

Decreasing butter consumption and weak world markets, however, have this year combined to fuel a worrying new build up in EC stocks: from below 20,000 tonnes at the beginning of January, the butter mountain is this month almost 160,000 tonnes and growing (with a further 170,000 tonnes sitting in private storage). Skimmed milk powder surpluses, meanwhile, which had all but vanished at the start of the year, today total more than 240,000 tonnes, way above the 100,000 limit which was optimistically set as the supposed cut off point. Much of the trouble is on export markets which have been swamped with skimmed milk powder supplies from eastern European countries desperate to get their hands on hard currency.

In retrospect it is extraordinary that Mr Henri Nallet, the French Farm Minister, was able to persuade the Commission and his counterparts in other member states to increase milk quotas by 1 per cent last year. This now looks like an expensive mistake, however popular politically, since the grim reality for farmers is that production cutbacks look inevitable now as part of the review of the dairy regime scheduled for next year.

Shorter term, one of the dilemmas for the Commission will be whether to stick to its 1989 commitment to "turn off" intervention purchases of skimmed milk from September 1.

The international environment is also responsible for the well-justified budget anxieties in the EC's cereals division. With US grain production recovered from the effects of the 1988 drought - and responding in time-honoured manner to the increased prices which shortages provoked - the world market looks to be well on its way back to a state of oversupply. Prices have slumped from about \$160 per tonne to \$115 per tonne in the 12 months to July, down with the help of the US Government's aggressive export policy.

Latest forecasts by Cocaler, the usually reliable Brussels-based trade lobbying organisation, put this year's EC harvest at around 162.5m tonnes, only a fraction up on last year but still above the vital 160m-tonne threshold which triggers automatic price penalties for producers.

That, however, is not the Commission's major concern. What worries Brussels is the prospect of forking out export subsidies of close to Ecu100 per tonne to avoid an ultimately even more expensive build up in domestic stocks. (At between 11m and 12m tonnes these are not excessive).

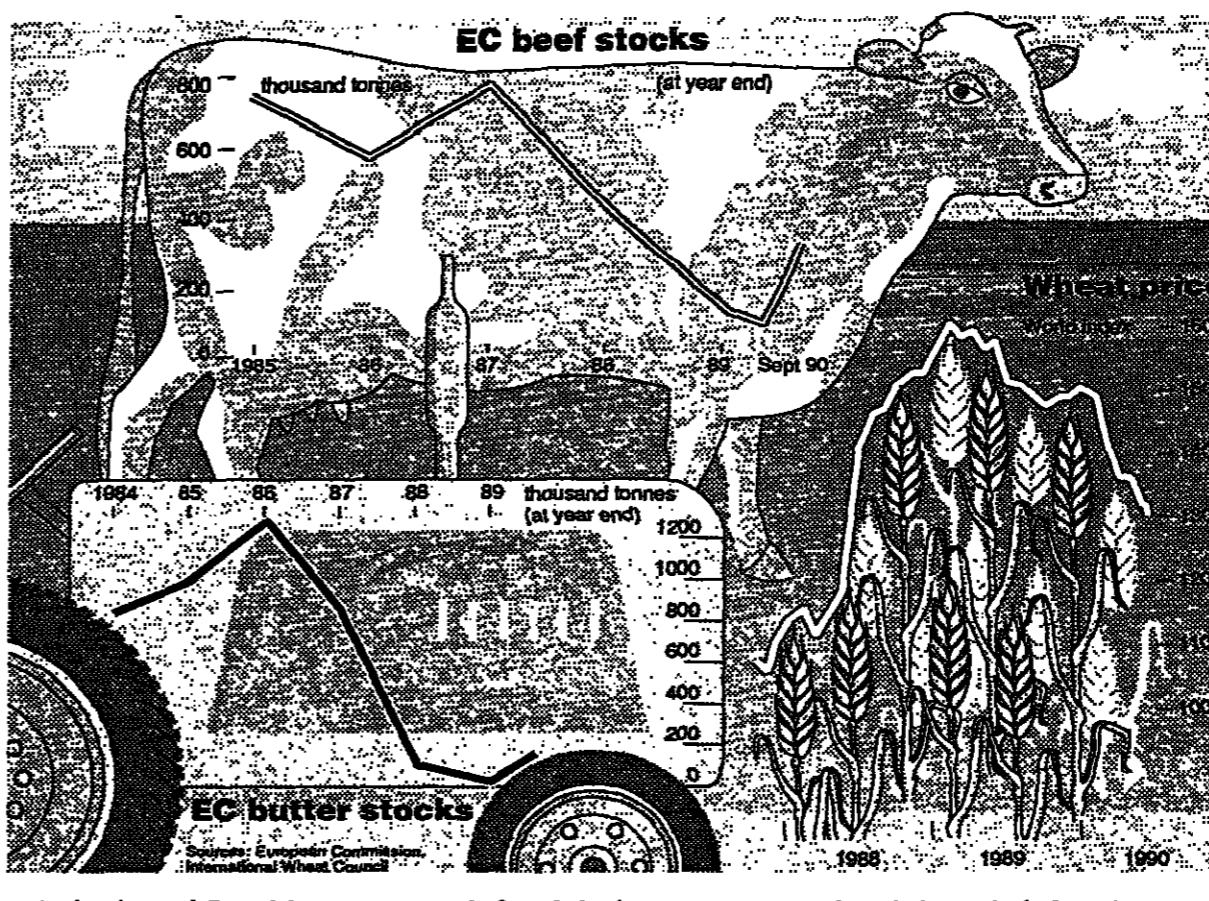
Brussels officials are looking at the likely cost of premiums which will be paid direct to lamb producers out of next year's budget. Calculated by means of a complex formula these are designed to bridge most of the gap between market prices and a fixed guide or target price. Even with the offsetting effect of the 1988 stabiliser, however - which imposes penalties for overproduction - the budgetary costs of the regime look set to nudge Ecu2bn in 1991 (about 20 per cent higher than this year's record total).

In many ways the dairy regime is the most disappointing and disturbing problem of the lot. Production here has been governed since 1984 by strict quota applied to individual farms, backed up with fines equivalent to 100 per cent of the price for every gallon over the limit.

The system has been held up by

## Tim Dickson reports that agricultural surpluses are again becoming a problem on the European Community's books

# Foothills rising into mountains



Japan's increasingly lucrative export market is effectively "off limits" due to a 1988 commitment signed by the then Farm Commissioner Mr Frans Andriessen. Overturning this now would be politically disastrous in the context of the Uruguay Round.

Last week's violent protests by French farmers were an ugly reminder of current difficulties in the EC sheepmeat sector (although the protesters were equally beefing about beef and the drought). Prices in France (and elsewhere) have fallen by roughly 10 per cent this year as exports across the Channel from the UK and Ireland, up 20 to 30 per cent, have flooded the market. A huge growth in Irish output, the earlier weakness of sterling, and the abolition of a charge on British exporters under the revised rules of the regime have all been responsible.

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## OBSERVER

by a mental picture of the typical British student as being clad from head to toe in M and S gear, looking for a job in a shop, and spending endless hours on the phone.

### Drugs hunt

■ Celltech, Europe's biggest biotechnology research company, believes it has resolved its biggest problem of the past year by hiring two new top executives from the pharmaceutical industry.

And it is not moving into the stratospheric salary levels recently explored by another company in the same line, Porton International, which paid £450,000 a year to lure a new chief executive from Glaxo.

Celltech has hired "on fully competitive terms", says John Jackson, chairman.

Celltech has been beleaguered for a year since its biggest shareholder British & Commonwealth, with 37 per cent, admitted it had to sell. Prospective purchasers were interested in parts but not the whole package. But the crash of B&C has eased rather than exacerbated the pressure, Jackson says.

To replace Gerard Fairclough, the founding chief executive, who said he would retire when he turned 60 next month, Jackson has hired Peter Fellner, who has been chief executive of the £200m Roche UK operation for the last four years. Fellner, aged 46, previously ran Roche's UK research.

Jackson has also hired a new research director, David Blorham, from Laboratoires Almirall, Spain's leading drugs company. Blorham and Fellner are old friends.

Fellner says he had been drawn to a company with only 450 staff and a fraction of his present company's turnover by a conviction that Celltech has great potential as an inven-

Expansion Scheme. Readers will be able to buy shares in the magazine.

"Our research showed that we need £150,000 in the first year to succeed", says Calman, who admits that he and his team are using "guerrilla" tactics to reach their potential audience. They have just done their second mail shot - to every punter who booked by credit card for a successful show given by Jackie Mason, the American comedian earlier this year. The first mail shot was achieved, says Calman, by everyone he knew rustling up names and addresses.

Calman's marketing contacts advised that a small shot asking for money might, if he was lucky, bring in 1 or 2 per cent response. "We had 15 per cent response, which brought in £2,000."

Selling advertising in the first issue of an unknown publication is usually an uphill struggle. The New Moon people, "working from a hotel in East Finchley", have sold £5,000 worth of space. The first print run will be 20,000 and the cover price will be £1.50.

### Mission off

■ A notice from the London Chamber of Commerce and Industry which has lingered in an in-tray here must have some value as an artefact.

Advertising its first trade mission to Iraq and Kuwait for several years, earlier this summer, the chamber declared of Iraq: "There are many opportunities for British business to become involved. Certainly there is much goodwill towards UK." Kuwait was, "a prosperous economy just getting back into its stride".

The trip was supposed to begin

The pickets have not stood outside the Churchill Hotel in London for two months; the man who ran around the building 80 times in support of union recognition has gone away. A three-year campaign by the Transport and General Workers' Union struggle on quietly although the hotel has ignored its claim to have recruited more than half the 450 staff, and gained the right to represent them.

Union Yes is the slogan of the 122nd Trades Union Congress, which opens in Blackpool today. It is meant to signal a spirit of optimism as the British union movement turns the corner from a hard decade of decline in the 1980s. But faced with employers who increasingly say Union No, and unions who often feel only Union Maybe, it sounds rather like whistling to keep the spirits up.

As today's debate on membership and one later this week on finances will show, last year was a bad one for the TUC. Its membership dropped by 247,000 to 8.4m – a fall of 2.9 per cent. The size of the drop contradicted hopes that it was close to stabilising its membership after 12 years of decline. The TUC faces financial deficits of £1.2m in 1990 and £1.5m in 1991 unless it makes savings.

Just as worrying is a sense of waste: that unions failed to reverse the tide of decline as employment rose from 1983 onwards, and now face inevitable falls in membership from job losses. The drop has little to do with unbridled competition from the EETPU electricians' union, which was expelled from the TUC in 1986. The EETPU admits to having lost some 3,000 members itself last year.

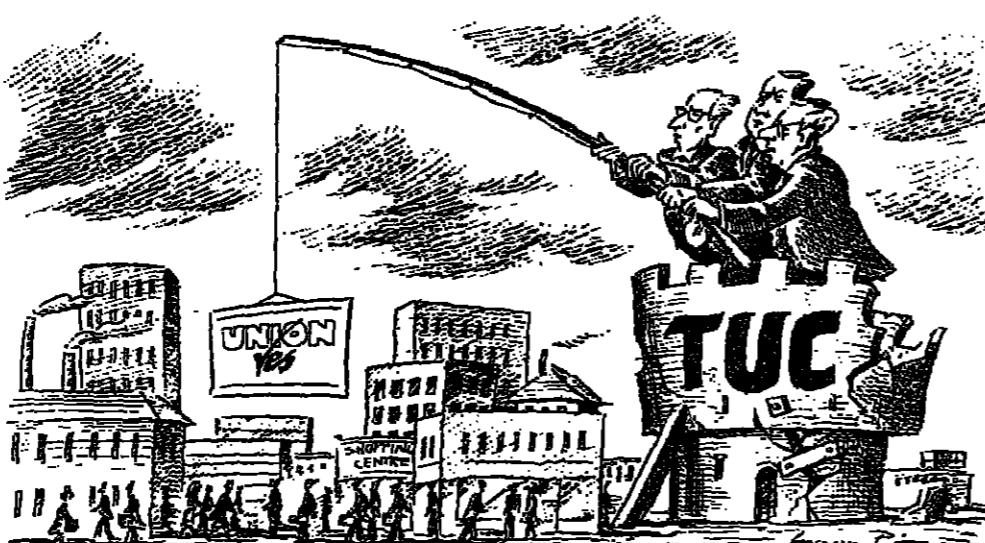
Most unions have employed tactics such as seeking members in expanding industries, or tightening up recruitment. But increases in recruitment have not yet matched the turnover of members. "The truth is we are struggling hard just to stay in the same place," says John Edmonds, leader of the GMB general union.

Apart from rising unemployment, unions face two main problems in regaining the steady post-war rise in membership that stopped in 1979. One is that maintaining members is harder in the expanding industrial sectors, and among the types of jobs which are growing. The second is that employers are displaying more hostility to collective bargaining, particularly for managers and white-collar staff.

Union density – the proportion of union members among employees – stood at 39 per cent last year, according to the

As the Trades Union Congress starts today, John Gapper looks at the challenges for the 1990s

## Fishing expedition in hostile waters



Government's Labour Force Survey. It was far lower in industries such as retail distribution (15 per cent) and hotel and catering (11 per cent), which employ a growing proportion of the workforce. The highest density (30 per cent) was in the fast-shrinking coal industry.

Unions are also strongest in job grades which are in relative decline. Warwick University has forecast that there will be 600,000 more jobs for managers and professionals, and 100,000 less for general labourers, by 1995. Union density in manufacturing reaches its lowest (25 per cent) among managers, and is highest (53 per cent) among labourers.

Meanwhile a few companies in manufacturing have rid themselves of unions, and many service employers have resisted recognition. Particularly worrying for white-collar unions have been moves to cancel collective bargaining for managerial and professional grades. British Telecom, British Rail and the electricity supply industry have all introduced individual employment contracts for managers.

Employer hostility has not always been enough to deflect unions. The brushfire spread of unionisation among general

workers 100 years ago was achieved in a series of violent strikes and lock-outs. Industrial action among North Sea oil workers, despite the fragility of union there, is cited by Mr John Monks, the TUC's deputy general secretary, as a modern parallel.

But there has been no comparable brushfire among today's best equivalent of the general workers of 1890 – the mostly non-unionised women working part-time in services. Without a leap of faith among workers similar to that of 1890 – or a shift of employers' attitudes – unions in private industry face extreme difficulty breaking into new areas.

A basic reason for this is cost. Mr Paul Willman of the London Business School says the recruitment of individuals without co-operation from employers is just too expensive for unions. Only by persuading employers to grant recognition – taking on the cost of shop stewards who will sustain recruitment – can unions operate cost-effectively.

The TUC's attempt at co-ordinated three-week recruitment campaigns in Trafford Park, Manchester and London Docklands this year indicates the scale of investment needed to attract people at random. In

Trafford Park, unions gained 900 recruits at a cost of £78,000. At £66 each, it was more than twice the £39 paid by an average TGWU member in subscriptions last year.

What can unions do to break into expanding employment areas and protect their traditional strongholds? They can do relatively little to alter employer hostility, and nothing about changes in the workforce. Many are instead trying to change themselves, the services they offer, and the way they recruit in order to attract workers more effectively.

They are looking for what Mr Monks calls "different keys" to unlock a response among service workers, and deepen the attachment of managers and white-collar staff. Union leaders agree that managing conflict is no longer enough. "People are more particular these days: they want a package of services as well as collective bargaining," says Mr Garfield Davies, Udsaw's general secretary.

An acute problem is how to hold on to managers and white-collar staff who are taken out of collective bargaining. The answer adopted by the Institution of Professionals, Managers and Specialists, is to offer a legal and financial con-

sultancy service for managers who now have to negotiate their own contracts in companies such as Amersham International and Royal Ordnance.

Mr Bill Brett, IPMS general secretary, says the union has no alternative but to follow the trend towards individual employment contracts, despite the expense. "Employers are decentralising bargaining to individuals, and if unions do not follow them, we will not be giving a service to members who are probably more in need of it than ever," he says.

But even the supporters of these changes foresee a continuing struggle just to maintain union density in the private sector. Under a Conservative Government, unions' chances of expanding recognition will remain uncomfortably at the whim of employers. Without such deals, the cost and difficulty of recruiting members are much greater.

For this reason, there is a lot of interest within the TUC about one of the Labour Party's proposals for reforms of employment law. The party has promised to bring in a legal mechanism under which unions with members in a workplace could force unwilling employers to grant them collective bargaining rights for the first time in a decade.

This proposal promises to compensate for the loss of the closed shop. "The closed shop didn't do much for us in the docks, or bring many women or blacks into Smithfield market," says Mr Bill Morris, TGWU deputy general secretary.

Instead, unions might win forms of recognition according to the number of members in a workplace. Recruitment drives could turn into reasonable investments.

The latter is not a foregone conclusion. The last experiment under the 1975 Employment Protection Act only brought about 60,000 workers into recognition agreements in four years and was said by the conciliation service Acas to have had "no more than a marginal impact except in one or two sectors of industry." But it still looks like the best hope for unions whose efforts are frustrating without it.

"If we have access to people who are not in unions, and if there is a mechanism to offer them recognition once they join, the brushfire will catch," says Mr Edmonds of the GMB. British unions have recovered from decline before, but the present spell has been long and brutally hard. Without a law to stop them, it will keep getting easier for employers to dampen down the fading cry of Union Yes.

## A last lingering look at the other Germany

By Samuel Brittan

Articles on "What I did on vacation" are normally to be avoided. But as my holiday included a few days in the "German Democratic Republic," which is to disappear on October 3, an exception might be excused.

Some things have changed remarkably quickly. The town of Karl-Marx-Stadt is nowhere to be seen, as it has been replaced by its old name of Chemnitz on all signs. Yet the Federal Republic still seems more physically separated from the DDR than from other German-speaking countries such as Austria. This is partly because the crossing points are still far between. Two places which seem very near each other on the map are often a long drive away.

Mutual staring at each other by West and East Germans is still a popular sport. DDR city centres are full of West German cars and prosperous-looking businessmen gazing at their new fellow citizens who stare back, sometimes anxiously and furiously. When the border fence was a real barrier, West Germans could not resist the temptation to look into the DDR from any possible vantage. At one point the border came down to a river clearly visible from the road. A viewing table had been erected with details of some medieval battle, an excuse which fooled no one; and even now people stop their cars to gaze at the "other Germans" over the river.

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They came from museums of industrial archaeology.

Dresden was previously known as the Florence on the Elbe.

A Communist guide to the DDR emphasises the saturation Anglo-American bombing in February 1945, "only a few weeks before the end of the war."

It maintains that the intention was to leave a sea of

ruins for the incoming Soviet troops. The tourist photographs do not show, however,

that the restored historical

centre is surrounded by rubble,

buildings still in ruins, and

barrack-like apartments and

offices announcing that one

has well and truly arrived in a

former People's Democracy.

Dresden citizens may not believe the Communist expla-

nation. But they recall the

bombing as it were last year.

Nowhere, however, are the

reparations favourably on the

absence of souvenir shops and

other junk. The witches were

represented by two small draw-

ings outside the station buffet,

itself looking like a scene from

a German film of the 1920s.

As far as a non-window

gazer can tell, shop prices are

similar throughout Germany.

But the physical distribution

## LETTERS

### 'Ostensibly China may now be on the right side'

From Mr Peter Carey.

Sir, Your editorial on Cambodia (August 31) rightly welcomes the ambitions UN peace plan as probably the last chance for an internationally-brokered settlement of the 20-year-old conflict. But it is over-optimistic about the willingness and ability of the Chinese to bring pressure to bear on the Khmer Rouge.

Ostensibly China may now be "on the right side," but it should be remembered that the current Chinese leadership, in particular Deng Xiaoping, has a long-standing relationship with the Cambodian Communist Party. This relationship dates back to Pol Pot's first visit to Peking in 1965. Although Deng was personally

critical of Khmer Rouge excesses during their 1975-78 terror regime, his support for Pol Pot never wavered.

Since 1978, when the Khmer Rouge were overthrown by the Vietnamese, it has been Chinese arms which have ensured the military resurgence of Pol Pot's forces. Last year alone, Peking supplied them with more than \$100m worth of military equipment, and it is estimated that the Khmer Rouge now have at least two years' supply of ordinance buried in secret jungle locations with which to prosecute their guerrilla war.

In the unlikely event that Deng and other Chinese leaders are prepared to forge more than 25 years worth of military

and political aid to the Khmer Rouge, they also have important sources of revenue from the Pailin gem mines and western Cambodian logging concessions (leased out to Thai-Chinese contractors), and have moved a substantial number of their 100,000-strong captive civilian population across the border from their Thal-based refugee camps.

It is this population which has provided them with the bulk of their military recruits and porters for their guerrilla army.

The alacrity with which the

Khmer Rouge have welcomed

the UN peace plan should give pause because it highlights the way in which they are prepared to use international diplomacy for their own ends.

Their strategy is a long-term one: a return to total power in Cambodia by the end of the century through a combination of military attrition and political manipulation.

By offering them the chance to participate in the Supreme National Council and subsequent elections, the UN plan gives them the opportunity to gain a foothold in any post-settlement Cambodian government.

It is a recipe for disaster.

Peter Carey,  
Trinity College,  
Oxford

critical of Khmer Rouge excesses during their 1975-78 terror regime, his support for Pol Pot never wavered.

The night quotas for quiet aircraft at our airports are set by the Department of Transport and not by BAA. Moreover, we are most mindful of the impact of noise.

For many years BAA has given a discount of 20 per cent in its landing charges to noise-certified aircraft, and two years ago introduced a further discount of 5 per cent for "super" quiet aircraft such as the BAE 146. We intend to develop this discount further following consultation with our airline customers.

Alan Proctor

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Heathrow Airport,  
Hounslow, Middlesex

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Hong Kong Stock Exchange: the saga of Ronald Li comes to court this week

## Colony aims to clean up its financial image

By Angus Foster in Hong Kong

In the first week of October 1987 Mr Ronald Li, then chairman of the Hong Kong stock exchange and seen as the leading figure in the colony's financial markets, attended a banquet on the 10th floor of the World Trade Centre in New York.

Proudly, and perhaps with a tinge of boastfulness, Mr Li told the International Federation of Stock Exchanges about the achievements made in Hong Kong since he helped unify the colony's exchanges in 1988.

The banquet was to be the pinnacle of Mr Li's success. Within a month world stock markets had crashed. In a controversial decision, Mr Li closed the Hong Kong exchange for four days, citing settlement problems. When the market reopened, Hong Kong dived 33 per cent in one day.

Just over two months later, officers from Hong Kong's powerful independent Commission Against Corruption arrested Mr Li under a prevention of bribery ordinance, and sparked off the latest sensational episode in Hong Kong's colourful history of financial scandals.

Mr Li is finally being brought to trial this week. He is accused of accepting shares in Cathay Pacific Airways and Novel Enterprises in return for supporting or not delaying the granting of a listing on the



Ronald Li: on trial this week

stock exchange to the companies in 1986 and 1987 respectively.

The trial threatens to be lengthy and high-profile. Prosecutors are expected to bring several well-known businessmen to the stand, including the former chairman of Cathay Pacific and eminent merchant bankers.

The outcome of the trial is extremely important to the Hong Kong Government, which was badly embarrassed by the closure of the exchange and has since invested considerable political capital trying to clean up Hong Kong's image as a financial centre and in trying to bring Mr Li to trial. The case will also have a

bearing on already low morale at the Government's legal department, which has itself been rocked by scandals recently.

The 60-year-old Mr Li, on bail of HK\$7m (£800,550), has remained silent throughout his 2½ year wait for trial. That may have been the hardest part for a man who has a reputation for being outspoken and headstrong.

Born into a wealthy family with trading and shipping interests, Mr Li soon found his own talents lay with stock markets. After studying accountancy in the US, he returned to Hong Kong in the 1950s to take over the family business, which was quickly refocused towards share investment.

As his influence and wealth increased, he felt confident enough by 1969 to start a new stock exchange in Hong Kong and threaten the official bourse.

By 1986, with turnover on his exchange matching that of the established bourse, Mr Li was in a position to achieve the unification of Hong Kong's stock exchanges.

By the heady days of September 1987, market capitalisation had almost doubled since unification of the stock exchanges, and daily turnover had rocketed from HK\$50m on good

days. More than 30 companies were seeking public offerings before the October crash intervened.

Mr Li's management style was controversial. He often styled himself as a defender of small Chinese brokers being threatened by international banks and brokerages rushing into Hong Kong, who were not then allowed exchange seats. In 1987 he caused a storm by suggesting that the foreigners thought they deserved seats "because the colour of their skin is white."

The real damage inflicted by

Mr Li's management style was not unearthed before the release of an independent report on the exchange, commissioned by the Government in the wake of the crash and conducted by Mr Ian Hay Davison, the former chief executive of Lloyds. The report said "an inside group treated the (stock) exchange as a private club rather than a public utility" and added that although its governing committee had been successful in attracting business, they failed to introduce proper management and regulatory arrangements.

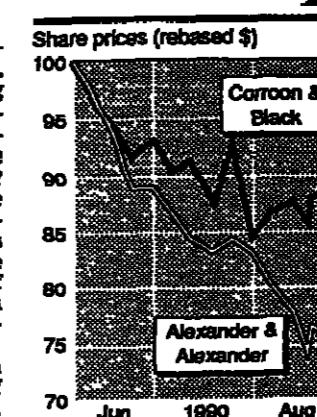
At the start of this year, Mr

Li was asked by a local journal what he would be his new year's resolution. Mr Li said he

he would try and improve his golf. "But I won't be investing in any stocks," he added.

THE LEX COLUMN

## Making sense of brokers' pay



own shares; and some of the vendors, still with Corroon, would presumably prefer hard cash from Willis.

But most of them have little choice, not being very powerful within the firm. New York's arbitrageurs have shown zero interest in the Corroon situation; no other bidders are around; and as the stock price of Alexander & Alexander shows, other US insurance broking shares are weak. So on the US side, the deal seems all over.

As for Willis's shareholders, Friday's offer document confirms that Willis's tie to its former partner Johnson & Higgins accounted for 11.5 per cent of Willis's 1989 broking turnover, which is a lot. But on the plus side, the management responsibility divisions in the offer document suggests that this time around, Willis is treading much more delicately than in its ill-starred 1987 merger with Wrightson.

### Japanese warrants

Amid the ruins of the Tokyo market, optimists have sought hope in the fact that the classic built market instrument, the bond issue with equity warrants, is not dead. But the syndicate managers who reopened the market in early July are taking a gamble. When they closed the market in March, they did so in panic after the Nikkei Index had fallen sharply several times and was threatening to plummet. Now, despite a much worse drop since the Gulf crisis began, they are in.

Contrast the performance of Eurotunnel and Euro Disneyland since flotation with that of Hays, one of the biggest new issue flops. It came to the market at the same time as Euro Disney, is paying a reasonable dividend, and has minimal gearing. Its profits are expected to continue growing and it is selling on nine times current year earnings. Nevertheless, its shares have significantly underperformed Euro Disney's, which are selling on 14 times projected 1995 earnings. So for that matter have those of Walt Disney, the US parent, which stands to earn far more out of Euro Disneyland than the latter's shareholders and is selling on 14 times earnings for 1991.

**Gulf crisis**

Both shares ought to offer an above average return, especially in a bear market. But at current prices, the estimated rate of return for both is under 14 per cent. With long gilts offering close to 12 per cent and an average return on equities of 15 per cent plus over the last 25 years, the shares are not reflecting the very sizeable risk.

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Eurotunnel and Euro Disneyland since flotation with that of Hays, one of the biggest new issue flops. It came to the market at the same time as Euro Disney, is paying a reasonable dividend, and has minimal gearing. Its profits are expected to continue growing and it is selling on nine times current year earnings. Nevertheless, its shares have significantly underperformed Euro Disney's, which are selling on 14 times projected 1995 earnings. So for that matter have those of Walt Disney, the US parent, which stands to earn far more out of Euro Disneyland than the latter's shareholders and is selling on 14 times earnings for 1991.

**Willis/Corroon**

So far, there is a degree of demand from investors looking for hedges or cheap, highly geared exposure to a nervous market. That suggests the March closure was primarily a domestic Japanese affair, triggered by official concerns over runaway asset inflation. The odds then were stacked against the underwriters; now they are probably right to guess that closing the market would do more harm than offering investors a plain choice. Jacking up the meagre coupons on the bonds is the strongest signal yet of their concern.

## Unification costs emerge as election issue

By David Goodhart in Bonn

THE PRICE of paying for German unification is likely to become a significant issue in the election campaign following the decision by the Social Democrats at the weekend to support tax increases to help cover costs of the unity.

The announcement, which was made by Mr Oskar Lafontaine, chairman of the SPD, and which coincided with the launch of the party's election manifesto, is likely to put pressure on Chancellor Helmut Kohl to spell out the costs of unification.

Mr Kohl's centre-right coalition Government had ruled out any tax increases to pay for unification, whereas the SPD, until yesterday, had declined

to clarify its own position, preferring instead to accuse the Government of hiding the true cost of unification.

Mr Oskar Lafontaine, the SPD's candidate for Chancellor in the December elections, has made it clear that he believes the costs of unity, which he estimates at about DM100bn (£64bn) a year, will have to be borne by the taxpayer.

He said the SPD wanted the better paid to shoulder more of the burden through a "supplementary tax."

Mr Lafontaine also unveiled the SPD's 100-point manifesto for the election, a modified version of its pre-unification programme for an "ecological restructuring" of the economy.

The programme still includes the plan to restructure the tax system to promote energy saving and to phase out nuclear power.

In addition, the SPD proposes a big public works investment programme to provide jobs and improve the infrastructure.

The programme is aimed at raising living standards as quickly as possible in East Germany. "Unity [must be made] a reality in everyday life," states the manifesto.

The SPD also wants to reform social and family policy in West Germany and, more controversially, end the so-called "Aussiedler," the special status for east Europeans Mr Kurt Biedenkopf.

## US plans write-off of Egypt's military debt

By Lionel Barber in Washington and Tony Walker in Cairo

THE White House plans to write off all or part of Egypt's \$7bn military debt to the US.

Mr Atef Sedki, Egypt's

Prime Minister, yesterday welcomed the move, which has to be approved by Congress, but warned that people would suffer increased hardship because of the Gulf crisis.

Egyptian officials were clearly delighted, however, that the US was proposing to ease Egypt's debt burden significantly. Repayments on the military debt amounted this year to \$360m and even before the Gulf crisis erupted US officials were alarmed about the danger of their principal Arab ally sliding into default.

President Hosni Mubarak's support for the US military build-up has made the case for writing off the debt much stronger.

Cairo has been lobbying for forgiveness for several years but the US Treasury had blocked such a step. The US provides Egypt with \$2.3bn in grant aid annually. Of this, \$1.3bn is Foreign Military Sales assistance.

The US converted its military assistance to grant aid in 1986. The \$7.1bn debt, including principal and interest, has accrued from loans provided before 1986 at an average rate of interest of 12.1 per cent.

However, there are signs that the proposed debt write-off may not be unconditional. Some leading Congressmen, notably Senator Sam Nunn, chairman of the Senate Armed Services committee, are pressing for the Arab states to add to their own forces in Saudi Arabia, not only with troops but also with mechanised support such as tanks.

Egypt is the obvious target, and the extent of its support could be linked to the size of the debt write-off.

A presidential spokesman in Cairo said last night that if Congress endorsed Mr Bush's proposal it would be a great help. However, he noted that Egyptian losses from the Gulf crisis were running at about \$2bn annually.

Egypt estimates that remittances from expatriate workers returning home or otherwise affected by the crisis will be down by some \$1bn. Tourism revenues are expected to be substantially reduced, and the Suez canal dues will also be hit hard.

Egypt is likely to be the recipient of substantial assistance from Japan, and possibly from the World Bank and International Monetary Fund. Cairo has been engaged in protracted discussions with the IMF on support for a new economic reform programme.

As London's stockbrokers reassemble after the summer lull, their masters will be brooding on the industry's central problem: why, despite losses, closures and overcapacity, are these people paid so much? The question relates not to the small band of genuinely talented brokers. The problem is rather the youngish, mediocre operator who still finds that if employers will not pay an decent income, competitors will.

Part of the answer lies with the industry's history of restrictive practices, which allowed high returns to its workers through the monopoly application of union rates, otherwise known as fixed commissions. The abrupt shift to competition four years ago did nothing to reduce the expectations of the workforce. Instead, Big Bang attracted a huge amount of fresh capital, which ever since has been devoted to raising overheads further in an attempt to drive the competition away.

Both to this the industry's traditional lack of formal training, which means it is generally cheaper to poach people than to recruit from scratch and it is plain that the problem is deep-seated. Perhaps the best hope lies in the fact that the generation of managers responsible for Big Bang strategies is now moving towards retirement. The longer resolution is delayed, the more US stockbroking risks being classified as a commercial graveyard.

Failing that, one of the industry leaders has to declare a policy of pay and stick to it. The point is not necessarily that top broking salaries are untenable; the sums earned by the stars of merchant banking, who operate in a broadly free market, suggest that City skills command a high price in relation to the economy as a whole. What is needed rather is the establishment of differentials. The industry's free market tenets require nothing less.

**Europe**

There is something rather touching about the continuing investor loyalty towards the two great euro-projects, Eurotunnel and Euro Disney. Admittedly, both shares are well below their peaks of over £1. But Euro Disney shares are 26 per cent above the issue price and Eurotunnel shares are nearly double where they were shortly after flotation.

Given that interest rates have risen sharply, the oil price is up 40 per cent and eco-

## Gulf crisis puts pressure on Spanish economy

By Peter Bruce in Madrid

THE Spanish Government has begun preparing the country for new economic restrictions, which it claims have been forced on it by oil price rises following Iraq's invasion of Kuwait.

Mr Felipe Gonzalez, the Prime Minister, warned on Friday night: "I am not prepared to put Spain through its experience of 15 years ago in the first oil crisis."

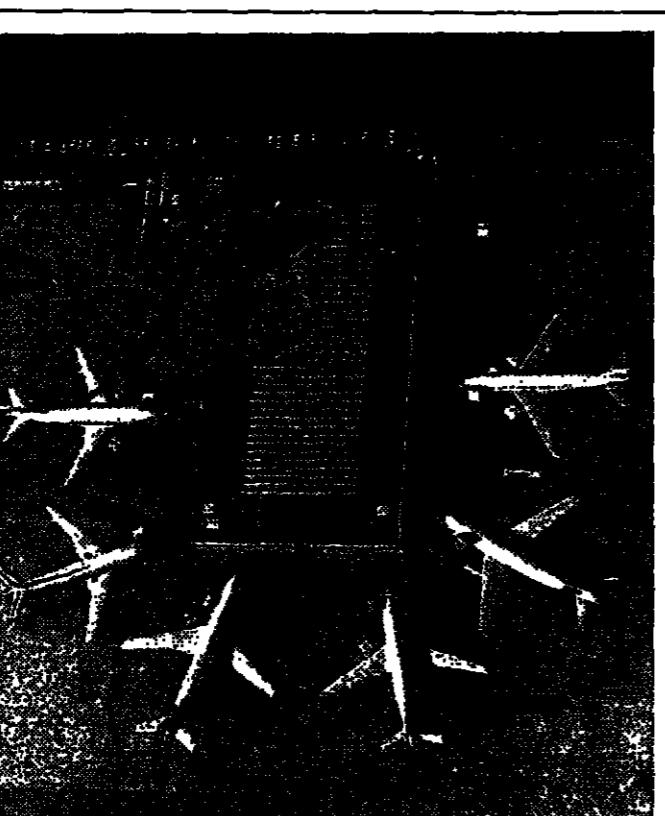
He said salaries and prices would have to be held in check to prevent the country from a recession. Assuming what one minister called the "worst case scenario," Carlos Solchaga, the Finance Minister, is expected to present a hurriedly revised budget for 1991 to the Cabinet in the next few days.

The Prime Minister's warning has been fiercely criticised by opposition and union leaders, who have pledged to fight any wage cuts.

Petrol prices are due to rise tomorrow for the third time since the invasion, and Mr Solchaga has acknowledged that the Gulf conflict has already scuttled his hopes of cutting inflation by a full percentage point to 5.7 per cent this year.

Despite high interest rates and tight credit restrictions, money supply has been growing well above target and falling tourist receipts have jeopardised hopes of containing the 1990 current account deficit to \$6bn.

Industrial production fell nearly 2 per cent in the first half of 1990, and, while the strong peseta may soften the effects of rising oil prices, there is so little room for manoeuvre on monetary policy that the government feels it may now have to find budget cuts and prepare to fight the unions on wages.



Airbus Industrie's flight-test department - the 'cattle trough' - close to Aerospatiale's Toulouse factory

Continued from Page 1

tum was still a long way to making a significant return on capital for its partners.

Although the commercial aircraft market is enjoying a boom in orders with all manufacturers working to full capacity, the US and the Europeans are still at odds over the question of what the US claims are subsidies to the Airbus consortium.

Negotiations are taking place between Washington and the European Commission and Mr Pierson said the deadline for the talks was the end of this month.

He claimed that the Europeans had made significant concessions but the US was still

## Airbus 'to make profit'

Continued from Page 1

reluctant to reciprocate.

The Europeans are understood to have agreed to reduce the level of government support on new aircraft programmes from 70 per cent to 15 per cent but the US is still insisting on a 25 per cent limit.

However, Mr Pierson also suggested that the US was not prepared at this stage to make any important concessions on the European claim that US aerospace companies were indirectly subsidised under US defence procurement procedures.

Reports in Washington suggest Mr Bush has signed a national security directive allowing the Central Intelligence Agency to use covert action to destabilise the Baghdad regime.

Moreover, he attacked the low dollar exchange rate as another example of US trade policies to support US industry.

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**INSIDE****New look for the second section**

Changes to the Monday edition of the Financial Times are introduced with this issue. As on other days, the most important corporate and financial news stories will appear on this page. UK and international company news and capital markets

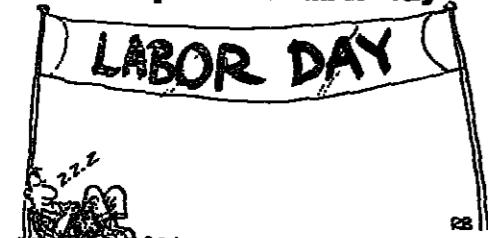
news can be found on the second and third pages of this section, headed Companies and Finance. The weekly bond market columns appear on the pages that follow.

The Monday Gilt market analysis, renamed European Government Bonds, will now take in the main European markets for government securities.

A new page, headed The Week Ahead, can be found in section one. Today it is on page 10. It contains the weekly economic diary, the parliamentary diary (when the House is sitting), the financial diary of results and dividends due, and Construction Contracts.

The listing of shares added to and deleted from the FT indices will be found at the end of the London share service. Today it is on page 29.

A weekly tabulation of significant cross-border mergers and acquisitions will appear every Monday. This week it appears on this page.

**Domestic pains of Labor Day**

It's Labor Day in the United States and nobody's at work. But what exactly do US workers have to celebrate? Anthony Harris looks at management practices and labour relations in his weekly column, which this week moves to a new position on the back page of the second section. Back Page

**February bond jitters**

The West German bond market tends to blame untoward price developments in the financial markets on "foreigners." In February, foreign jitters were particularly evident and now these fears appear to have been justified. Katharine Campbell reports. Page 18

**Market Statistics**

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EVEN BEFORE the Gulf crisis thrust the question of the arms build-up in developing countries so rudely into the lime-light, their military spending had been attracting increasing attention in the western aid community.

Prompted by the example set by the newly-emerging democracies in eastern Europe, western leaders have begun to call for more "good" government in the developing world. This implies not just heightened emphasis on social spending, but also a curb on wasteful defence expenditure.

Cynics argue that this new element of conditionality is a precursor to cuts in aid now that the end of the cold war means there is no longer a need to keep potentially wayward countries on the western side. Optimists believe this has created an opportunity to look more objectively at the real development issues.

According to Mr John Howelli of the Overseas Development Institute, the jury is still out on whether the cynics will

**Economics Notebook****Of arms and western aid**

win the day. But whatever happens, he says it will be well-nigh impossible to reverse the rapid rise in military spending by developing countries.

The UN Development Programme (UNDP) has calculated that military spending by developing countries rose almost seven-fold to \$160bn between 1980 and 1986. As a result, its ratio to Gross National Product (GNP) rose to 5.5 per cent from 4.2 per cent.

To put these figures in perspective, military spending by developing countries now outstrips their spending on education and health combined. It is also vastly higher than net official aid flows, which on estimates by the Organisation for Economic Co-operation and Development, totalled just \$65.7bn in 1988.

More important, the growth of military spending by developing countries continued at a rapid pace throughout the 1980s, despite their severe economic problems. Particularly alarming, according to the UNDP, is the behaviour of the least developed countries whose military spending amounted to 3.8 per cent of GNP by 1986 compared with 2.1 per cent in 1980. There is evidence to suggest that this has crowded out spending in other areas, stifling both economic growth and social development.

In Costa Rica, one of the few countries in the world to do without an army, average life expectancy is 76 years and the average literacy rate 93 per cent. Angola, whose military spending is nearly three times that on health and education,

has an average life expectancy of 45 years and a literacy rate of 41 per cent.

Figures such as these, and the changing international mood, pose a new challenge for major development institutions such as the World Bank. They have traditionally been nervous about tackling the problem for fear of being accused of meddling in the domestic politics of their client nations.

Mr Moen Qureshi, senior vice-president for operations of the World Bank, says the Bank is becoming "more direct." In the past it has usually tried to deal with the problem obliquely by asking its client governments to reduce non-development spending.

It is now also asking them not to cut social spending on items such as education and primary health care. That

leaves them with little alternative but to home in on their military spending if they want continued World Bank support.

Yet it is hard to see how this problem can be tackled head-on without provoking an outcry in the developing world, especially since industrial countries also spend 5.4 per cent of their GNP on defence.

The list of governments which have deliberately built up their military strength specifically for the purposes of aggression is short. More often, developing country spending on defence is related, as in Ethiopia, to a perceived internal security threat.

The dilemma facing them is that failure to cut defence spending might lead to the end of assistance as western voters withdraw support. Meanwhile, *détente* could make them prey to the blandishments of arms manufacturers looking for alternative outlets for their wares.

Peter Montagnon

**INTERNATIONAL CROSS BORDER TAKEOVERS**

This is the first of a regular Monday tabulation of cross-mergers and acquisitions in the preceding week, prepared by Brian Bollen, editor of the magazine *FT Mergers & Acquisitions International*.

JAPANESE companies featured prominently in a week when the emphasis was on buying or increasing strategic stakes.

The acquisition of 15 per cent of Laura Ashley by Japanese retailer Jusco furthered its ambitions to move upmarket, and illustrated that there are reasons other than 1992 for moving into Europe. Jusco's purchase of 32.5m new shares in the UK clothes and home furnishings group gave the heavily-borrowed group a much-needed boost. The premium-priced purchase also underlined the hard cash value of a good brand name.

The French state-owned car company, Renault, refused to comment on the pending sale of 35 per cent of its steering systems subsidiary, SMI, to Koyo, owned by Japan's Toyota. This latest alliance in the car industry is given added piquancy by France's long and loud arguments about the need to protect the European car industry from Japanese competition.

In pharmaceuticals, Bristol-Myers Squibb of the US bought a blocking minority shareholding in UPSA Group. Bristol-Myers hopes to use French effervescent technology to develop products for international export.

The sale by the UK construction group, Beazer, of half its Texas cement business will help to reduce the debts incurred when it bought the Koppers aggregates business in 1988.

Source: *FT Mergers & Acquisitions International*

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**Holmes à Court dies at 53 of heart attack**

By Ray Bashford in London

ROBERT Holmes à Court, the Australian businessman who was one of the biggest losers of the October 1987 stock market crash, died yesterday. He was 53 years old.

Mr Holmes à Court died of a heart attack at his stud farm while taking a weekend off from his private investment company operations in nearby Perth. He leaves a wife, Janet and three sons and daughter.

Mr Ian Spicer, the chief executive of the Confederation of Australian Industry, said he had helped to "revolutionise" the finance industry in Australia. "He was a dominant character, a man of significant ability and he will be missed in the business community," he added.

Mr Holmes à Court developed an international reputation as a shrewd deal maker and stock market trader during the 1980s, at the same time as there was a rash of fellow Australian businessmen into world markets.

Immediately before the stock market crash, he had a personal fortune valued at A\$1.3bn (\$1.1bn). He had used international borrowings to finance the creation of an empire which included substantial stakes in BHP, Australia's biggest company, Texaco, the US oil group, in addition to important stakes in several leading UK companies.

The crash forced him to sell off most of these assets to Mr Alan Bond, another Australian businessman, at less than half their October 1987 level.

Since taking his operations private, Mr Holmes à Court had secured his position as the dominant figure in West End London



Holmes à Court: 'a man of dominant character'

theatre property and become the largest pastoral property and cattle owner in Australia.

In May 1989 he won control of Sherwin Pastoral, Australia's largest cattle property company. It holds leases on property covering an area the size of England and Wales.

A leading Australian business magazine recently estimated his personal fortune at A\$700m, which includes a significant collection of Aboriginal and European art, and vintage cars.

**Pemex plans to tap Eurobond market**

By Tracy Corrigan

PETROLEOS Mexicanos, Mexico's state oil company, plans to tap the Eurodollar bond market for the first time since 1982.

Pemex has already completed two transactions in other sectors of the Eurobond market this year, in D-Marks and Austrian schillings, as well as a \$100m (£61.2m) private placement in the US.

Details on the exact amount to be raised this time are not available. However, the road to the more credit-conscious dollar sector will be smoothed for Pemex, as investors favour those oil com-

panies set to benefit from rising oil prices caused by the Gulf crisis.

Mexico is the world's sixth largest oil producer through Pemex. Rising revenues will further boost the company's credit-worthiness. Pemex has never defaulted on or restructured any fixed-rate debt, even during the Mexican debt crisis of the early 1980s.

Pemex's dollar-denominated Eurobond is expected to carry a three-year maturity. Swiss Bank Corporation is the lead manager.

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## COMPANIES AND FINANCE

## Plaxton sees lower year's profit but same-again dividend

PLAXTON GROUP, the coach and bus manufacturer and vehicle dealer, is forecasting lower profits for 1990 after a setback in the first half. But it expects to maintain the dividend at 3.5p.

Turnover in the half year increased from £133m to £219.5m and the pre-tax profit from £3.7m to £5.21m – but this time included £2.4m from business disposals.

Mr David Matthews, chairman, said he was looking to a better climate next year.

He said that the coach and bus division had endured difficult trading conditions with interest rates causing severe price competition. That coincided with unusually high

vehicle stocks inherited from last year's Duple and Arlington acquisitions, and that was reflected in sharply increased interest costs.

On the motor side trading was satisfactory despite new vehicle purchases being some 11 per cent lower in the UK. Profits had held up well with solid performances from parts and service and used vehicle sales. Three loss-making dealerships were closed.

Coach turnover was £65.29m (£51.66m) and its pre-interest profit £1.92m (£4m), while motor produced £154.2m (£81.34m) and £3.52m (£1.66m) respectively.

Earnings came to 10.9p (11.1p) and the interim dividend is again 3p.

## Pathfinders falls and two directors resign

IN AN extremely difficult trading climate Pathfinders Group, the specialist entertainment and media recruitment agency, saw its pre-tax profit fall from £453,000 to £121,000 in the year ended March 31, 1990, and is passing the dividend.

The group also announced a major change in the shareholding and management. Mr Stephen Worth (chairman) and Andrea Rose, a director, have resigned and sold their shareholdings aggregating 17.23m shares at 3.25p each.

Mr Stephen Hargrave has purchased 5.64m shares (23.6

per cent of the capital), joined the board and become chairman, while Mr Luke Johnson has bought 1.5m shares (6.3 per cent) and also become a director. The balance of 10m shares went to institutions.

Turnover of this USM-listed group fell from £2.02m to £1.63m as the rail strikes and general economic climate took their toll. However, the general level of business now appeared to have stabilised. In June the two branch offices in Covent Garden and Bristol were closed. Earnings were 0.33p, against 1.23p from which a total dividend of 0.7p was paid.

Earnings per share were 3.5p (2.6p). The interim dividend is held at 2.25p.

### End of wholesaling losses boosts Arnotts

The elimination of losses in its wholesaling division, which has ceased trading, helped Arnotts, Dublin-based retailer, increase interim profits by 30 per cent. There was also an improved retailing performance.

In the six months to the end of July pre-tax profits were £11.08m (£976,000), compared with £832,000, on lower turnover of £18.55m (£21.55m).

Earnings per share were 3.5p (2.6p). The interim dividend is held at 2.25p.

### Macfarlane 11% ahead at £4.8m

MACFARLANE Group (Clansman), the Glasgow-based packaging group, lifted first half profits by 11 per cent, from £4.32m to £4.8m.

Sir Norman Macfarlane, chairman, said the group had made satisfactory progress and profit for the full year should exceed the previous £9.26m. Turnover for the half year to June 30 rose from £48.74m to £53.86m.

In packaging the principal companies again made substantial contributions to profits, while the others produced significantly increased results.

The two principal companies in plastic moulding continued to do well, while the marking products division traded satisfactorily and the most recent French acquisition made a useful contribution.

Earnings came to 10.9p (11.1p) and the interim dividend is again 3p.

## Playing Pandora at Polly Peck

Continued from Page 17

"The company itself at different times has used different lawyers, different bankers and different advisers. Your saying in this country, horses for courses, is appropriate."

This does not explain, though, why he did not turn to advisers with which he had previously discussed a possible buy-out in far greater detail.

Commenting on his decision not to take greater financial advice before approaching the board, Mr Nadir said: "At this stage, all that was required was to put this highly conditional letter to the board to open the dialogue."

Mr Nadir argues that this letter, which has not been made public, absolves him from the criticism levelled by the Stock Exchange.

Mr Nadir denied that there was anything unusual about deciding on a Saturday to call a board meeting the next day.

"In my case, the seven days are all similar, a Sunday is no different from a Monday," he said. "I know that here in Britain you think of your working week as Monday to Friday and then you have your Saturday-Sunday holiday. That is not the case in this company. It is a living entity."

Although it is a very formal entity, there is also a lot of informality in the company," he added. "Committee meetings or board meetings take place at a day's notice or a morning's notice." Only two directors were neither present nor consulted by telephone during the meeting on August 12.

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Earnings per share were 3.5p (2.6p). The interim dividend is held at 2.25p.

August 12 that the money was mainly to come from Turkey.

After the first announcement, many leading names on Wall Street and elsewhere, had asked to be included, he said. Only a small part was likely to have come from Turkey.

Mr Mark Ellis, Polly Peck's director for corporate development, said: "Financing would have come from at least eight countries, including an element of Turkish financing."

Three banks in Istanbul with which Mr Nadir had worked closely in the past said last week they had not been informed of the intended takeover. If a bid had gone ahead, bankers in Istanbul believe that the role of Turkish finance would have been very limited, perhaps only £30m of a total of more than £1.2bn.

On Friday, Mr Nadir said: "There has never been any

which included Gateway Investments, Riverbridge Investments and Tristan, have been under review by the Stock Exchange's insider dealing group. The exchange is understood to have passed its findings to the Department of Trade and Industry and the Serious Fraud Office.

Many of the deals for the Swiss companies were arranged by Mr Jason Davies, a stockbroker who has been linked in press reports with Mr Nadir. Mrs Nevzat and associates, Mr Davies was, until July 31 1989, a director of South Audley Management, a property company once based at the address now occupied by Noble Raredon.

Another South Audley director was Mr Arseven Gunmus, who quit that position when he joined the Noble Raredon board.

Mrs Nevzat said last week that before taking control of Noble Raredon (formerly Gnome Photographic), she had shared a building in South Audley street with SAM for about six or seven months. "I was looking for a building and just happened to be introduced and shared this building for a while," she said.

Mr Nadir said such associations were purely coincidental and do not link him, his sister or any of their companies with any of the deals carried out by Mr Davies. He said that he had never employed Mr Davies, although he knew him.

With Mr Nadir at his side, Mr William Grosvenor, Polly Peck's external public relations consultant, said: "Speaking for the company, the company has had no approach from any authority of any kind asking for any single shred of evidence or anything else about these companies – at all, not one. Nobody has approached them. The Inland Revenue has not had the courtesy to approach the company at all."

Until recently, Polly Peck itself had made only one attempt to uncover the real owners of shares bought in nominee names – 18 months ago, when it sent out a series of Section 212 notices asking for the identity of beneficial owners.

These searches revealed a number of large investment institutions which used nominee accounts, and did not identify any suspicious holdings, the company said.

According to Mr Nadir:

"There are millions of shares bought and sold every day. Unless a company feels in danger of a takeover, I wonder how many companies and their

chairmen sit and watch who buys and sells their shares."

Polly Peck, however, is now understood to be undertaking a "routine" Section 212 sweep. What are the implications of Mr Nadir's increasing role as a business force in Turkey, both through Polly Peck and on his own behalf?

There seem to be no doubts about the strength of Mr Nadir's recently assembled industrial empire in Turkey. Competitors and analysts speak of it with respect.

Polly Peck has 20 main subsidiaries in Turkey, most of them owned through Voyager Limited or the UK. The oldest, Meyra Tarim Produkleri (Meyra Agricultural Products), a fruit sorting and packaging company, dates back only to 1983.

The group's activities include food, electronics, hotels, Pizza Hut restaurants,

As he leafed through recent press cuttings in his Berkeley Square headquarters, Mr Nadir was clearly shaken by the Stock Exchange report and

trading and a newly-announced joint venture to assemble Peugeot cars.

The Near and Middle East (to which Turkey made an unspecified contribution) accounted for £167.7m of Polly Peck's £161.4m pre-tax profits last year, a disproportionate share which has always caused concern among analysts. But Mr Nadir says: "Every six months that passes the company will be less and less vulnerable to a particular country, or region for that matter."

In the UK, Mr Nadir's reputation has been affected by his Cypriot roots and that island's tangled political situation. But in Turkey, the business establishment and the press also view Mr Nadir as something of an outsider.

Polly Peck executives are as likely as in Istanbul to claim that Mr Nadir and the group are the victims of an establishment conspiracy as they seem to be in London.

"Both political and business circles here in Istanbul regard Mr Nadir as a foreigner," says one well-known Istanbul businessman.

Several Turkish papers and magazines have made regular attacks on Mr Nadir, his family

and, in his industrial empire. In Turkey, he also owns a private industrial group, unconnected with Polly Peck, which consists of a small bank, two national newspapers and several magazines.

Altogether, he has spent about £55m on buying three publishing groups, a high price according to rival publishers, and has since spent heavily on staff and equipment. "It looks as if he is turning low cost operations into high cost ones very fast," says a competitor.

Mr Nadir's staff believe that the hostility of the Istanbul business establishment lies behind the scurrilous newspaper attacks in Turkey. "We cannot name them but we know who is paying them," said one of Mr Nadir's lieutenants.

Mr Nadir's friends and his enemies agree that much of his success in the Turkish market is bound up with his close ties with President Turgut Ozal and the ruling Motherland Party.

Last week, Mr Ozal phoned Mr Nadir in London, and Turkish diplomats blamed Greek Cypriot rioting.

Mr Nadir's lieutenants claim

he is buying newspapers in Turkey not to win political influence but because he believes these ventures will also become strongly profitable in due course. His interest in press ownership may also reflect, however, annoyance at the treatment he has received.

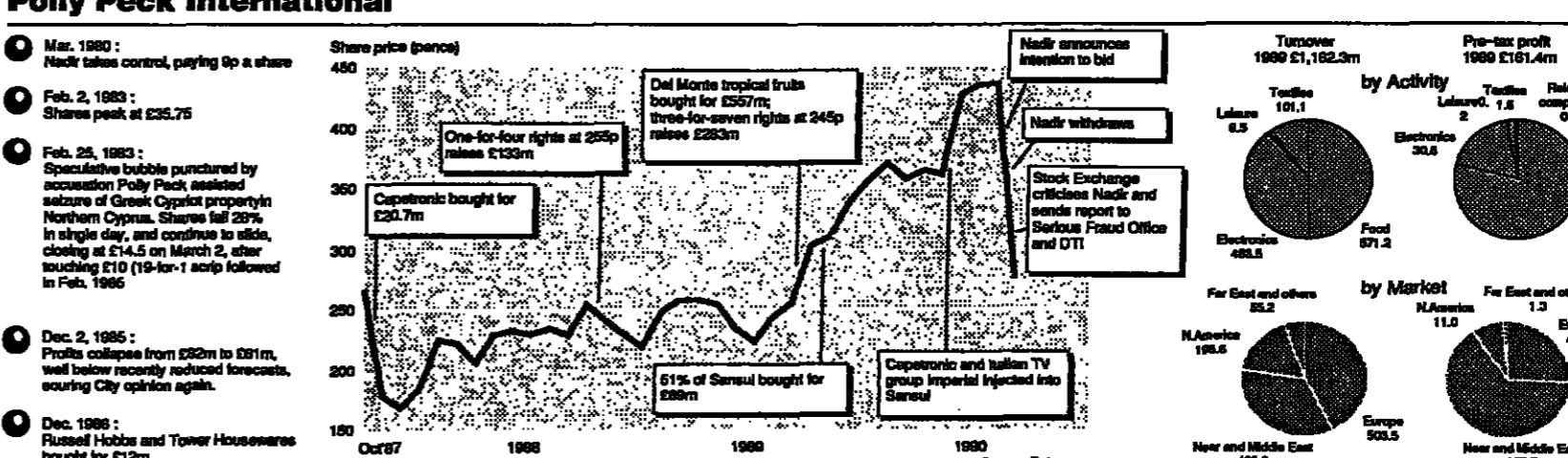
He is no less perturbed by the coverage of Polly Peck in Britain – over the past month and the past decade. As he leafed through recent press cuttings in his Berkeley Square headquarters, Mr Nadir was clearly shaken by the Stock Exchange report and the comment which followed.

He was eager last month to remove his affairs from the public scrutiny a London listing entails. Because it was launched prematurely, that ambitious plan ran aground before leaving the slipway and never was tested at sea.

Mr Nadir is left with a sharply lower share price, a bruised reputation, a cooling relationship with the Stock Exchange and the possibility of visits from the Department of Trade and Industry and the Serious Fraud Office following the quotations panel's report to those bodies.

She may have been Greek, but Mr Nadir may now regret he didn't pause to ponder the example of Pandora.

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## COMPANIES AND FINANCE

## Skandia to continue its aggressive policy

By Robert Taylor in Stockholm

**SKANDIA**, Sweden's largest insurance and property group and the fourth largest re-insurer in the world, has no intention of abandoning its present European strategy because of the sharp fall recorded at the end of last week in its first-half operating profits to SKr1.02m (\$2.05m) from SKr1.02m over the same period of 1988.

On the contrary, says Mr Björn Walrath, group president, the company is about to be listed on both the London and Copenhagen stock markets. Half a million shares are to be sold by the group's pension fund in Copenhagen on September 18 and 19 before the first day of its listing there on September 27. There is not to be a similar sale in London where extensive trading in Skandia's shares is already taking place, although the company is unlisted.

This latest move is part of the group's aggressive pro-

gramme initiated by Mr Walrath to grow out of its non-European Community Nordic power base both to compete more effectively in the deregulated EC's insurance industry after 1992 and to strengthen itself to meet any counter-challenge from larger EC-based insurance companies in the smaller Nordic market.

It is nearly two years since Mr Walrath bought back Skandia's divested international reinsurance operations and reintegrated them into the parent company with the aim of building a defensive Skandia Nordic empire to face the potential threat from competitors from mainland Europe.

A few months later the group acquired Vesta, Norway's largest insurance company and the market leader in marine insurance for NRk600m (\$131m). Last year Skandia raised its majority stake from 53 per cent to 79 per cent in KfG Brand (Royal Chartered),

the seventh largest Danish insurance group which it acquired in November 1987.

It also forged 10 per cent cross-ownership links with Pohjola, Finland's leading insurance company. Mr Walrath's vision of what he calls the 'total Nordic company' – with common computer centres, co-ordinated management training and other natural forms of teamwork, is coming into existence.

Mr Walrath believes that UK insurance groups have been rather slow to recognise the EC market, too content to rest on existing business. In the Anglo-Saxon world, 'this is not the case', he says. 'We have recognised we have to go into Europe,' he declares.

The EC will be integrated, but all business will be local.

Mr Walrath has rejected a joint partnership or alliance approach to the EC and instead wants to built up Skandia's direct presence there. 'We



Björn Walrath: vision of a total Nordic company

would rather build up a network of our own companies and then link them together.'

He is particularly keen in western Europe to concentrate on the development of direct non-life insurance in sectors such as cars, homes and unit

linked insurance orientated to pensions.

Skandia is stronger in some European countries than others. So far it has established a firm, recognisable presence in the UK last year it purchased the UK motor insurance subsidiary of National Insurance and Guarantees Corporation – and in Italy where earlier this year it acquired Unilass and Mutiass. It now has a foothold in the regulated German insurance market and it opened a unit-linked company in Switzerland this summer. The French insurance market remains difficult for outsiders to penetrate.

Clearly Skandia is not going to be as big a player in the European insurance company market as its German, Italian and UAP in France, but Mr Walrath is determined that his group will more than hold its own.

## Deputy nominated to take over at Consob

By Halg Simonian in Milan

**MR BRUNO PAZZI** has been nominated as chairman of the Consob, Italy's stock market and companies' watchdog, in succession to Mr Franco Piga, who was recently appointed as the country's Minister for State Participations.

Mr Piga, who has worked for the past four years as Mr Piga's deputy at the Consob, has been part of the organisation since 1978.

The new president has set improving the stock market's efficiency as his main aim. Italian legislators have still to pass new laws on reforming

## Sime Darby up by 27% for year

**SIME DARBY**, Malaysia's diversified conglomerate, reported group net earnings of RM283.6m (\$US105.3m) in the year ended June 30, up 27 per cent from RM223.6m for the previous 12 months, Reuter reports from Kuala Lumpur.

Turnover rose 18 per cent to RM4.97bn from RM4.2bn.

Sime said its performance was lifted by record demand for heavy equipment and motor vehicles which helped its tractors operations reap RM136.3m in pre-tax profits, more than double last year's RM58m.

Sime said increased profits were reported by its main businesses except its manufacturing sector, which includes tyres, other products and plantations. This sector's profits fell to RM28m from RM32.2m.

Overall pre-tax profits rose 20.8 per cent to RM411.4m from RM356.3m a year earlier.

The main items contributing to the group's extraordinary profit of RM136.3m, up from RM47.2m, was the profit of RM106.6m from the public sale of a 25 per cent stake in its Sime Singapore subsidiary.

The group supplies diesel engine, marine and industrial components, and makes commercial signs. The comparative turnover was RM2.7m and profit RM1.12m.

Mr Paul Torday, chairman, said the three divisions made a promising start to the year. That remained the case for DMI and Elifah Hughes, but market conditions for Oldham Sigma deteriorated sharply late in the first half.

All volume production was now concentrated at the main unit in Beeston, and custom-built sign manufacture switched to Cross Green, both in Leeds.

The factory at Wembley would be closed shortly, the company said.

Earnings per share for the half year came to 8.4p against 6.6p and the interim dividend is lifted from 1.7p to 2.3p.

## AMB earnings fall 29.1% in first half

**AACHENER UND MÜNCHENER BESITZUNGS** (AMB) suffered a 15.6 per cent drop in net profits in the first half of 1990 to DM45m (\$34m) from DM54m in the opening half of last year. AP-DJ reports from Frankfurt.

The Aachen-based holding company for West Germany's second largest insurance company, Aachener und Münchener Versicherung, said pre-tax earnings fell 29.1 per cent to DM32m for the half-year from DM117m a year earlier.

AMB, which also owns just more than 50 per cent of Bank für Gemeinwirtschaft (BfG), declined to comment on the bank's financial results but said it would not pay a dividend for 1989 so that it could be ploughed back into the bank.

AMB said it expected the fall in first-half after-tax earnings to flatten out.

For the half under review, earnings from shareholdings and other investments fell to

DM84m from DM100m a year earlier. Earnings from financial services advanced to DM17m from DM14m.

AMB's Aachen and Münchener Versicherung subsidiary separately reported that it expected net earnings for the whole of 1990 to be strong, but that the development of its insurance business in the first six months of this year was not up to expectations.

Hit by claims for storms, the company's gross payouts during the first six months rose 9.4 per cent from a year earlier to DM55m, while premium income in the first half rose, just 22 per cent to DM78m. The company added that it expected the growth of premium income to accelerate in the second half.

The insurer said the total value of its capital investment portfolio rose by DM3.7m from the end of last year to DM1.95m at the end of June 1990.

The main item contributing to the group's extraordinary profit of RM136.3m, up from RM47.2m, was the profit of RM106.6m from the public sale of a 25 per cent stake in its Sime Singapore subsidiary.

The group supplies diesel engine, marine and industrial components, and makes commercial signs. The comparative turnover was RM2.7m and profit RM1.12m.

Mr Paul Torday, chairman, said the three divisions made a promising start to the year. That remained the case for DMI and Elifah Hughes, but market conditions for Oldham Sigma deteriorated sharply late in the first half.

All volume production was now concentrated at the main unit in Beeston, and custom-built sign manufacture switched to Cross Green, both in Leeds.

The factory at Wembley would be closed shortly, the company said.

Earnings per share for the half year came to 8.4p against 6.6p and the interim dividend is lifted from 1.7p to 2.3p.

## NORTHERN IRELAND

The Financial Times proposes to publish this survey on:

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FINANCIAL TIMES

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Affiliated Trust Co.	15	Denmark Bank Plc	15	Provincial Bank Plc	15
Alfred Irish Bank	15	Dunamic Leisure	15	R. Raphael & Sons	15
Henry Anchored	15	East African Bank plc	15	Reichartige Bank Ltd	15
Associates Corp	15	Exeter Trust Ltd	15	Royal Bank of Scotland	15
B & C Merchant Bank	15	First National Bank Plc	16	Royal Trust Bank	15
Bank of Scotland	15	Robert Frazer & Sons	15	Smith & Williams Secs	15
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Bank Credit & Co.	15	Robertson	15	TSB	15
Bank of Cyprus	15	Robertson	15	United Bank Plc	15
Bank of Ireland	15	Robertson	15	United Metal Bank	15
Bank of Scotland	15	Robertson	15	Unity Trust Bank Plc	15
Bank of Scotland	15	Robertson	15	Western Trust	15
Barings Bank	15	Robertson	15	Westpac Bank Corp.	15
Brachman's Bank	15	Robertson	15	Whitney Lawford	15
British Nat'l Econ	15	C. H. Hare & Co.	15	Yorkshire Bank	15
C. H. Hare & Co.	15	C. H. Hare & Co.	15		
Chardron & Sons	15	C. H. Hare & Co.	15		
City Merchants Bank	15	Lloyd's Bank	15		
Clydesdale Bank	15	Montgomery Securities	15		
Cooper's Bank	15	Montgomery Securities	15		
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Norwich Union Asset Management Ltd	0603 617986			Prudential Capital Life Assc. Co Ltd	-			Royal Life's Assurance Ltd	061-219 3000			Scandin Life Assurance Co Ltd - Camb	-			Westland Life Assco Co Ltd	0652 202000			Spit Alliance International Life	
PO Box 124, Norwich NR1 1LS				Individual Pensions Funds	-			Royal Mail Pte. Limited 134 SHS	123.51	138.2	14.5	Scandin Life Assco Co Ltd - Camb	125.5	128.5	12.5	PO Box 77, New St, St Peter Port, Guernsey	0431 714128			J. D. Ward Financial Services Ltd	01-319 4212
Norwich Union Fund	142.1	142.1		RK Equity Ass.	269.9	272.1	14.5	Royal Seal Co. Ltd	1049.3	1049.3		Scandin Life Assco Co Ltd - Camb	125.7	128.7	12.5	4th Floor, 1, St Peter Port, Guernsey	0431 714127			4th Floor, 1, St Peter Port, Guernsey	0431 714127
Stock Market Fund	103.1	103.1		RK Equity Fund	143.1	143.1		Royal Seal Co. Ltd	1049.3	1049.3		Scandin Life Assco Co Ltd - Camb	125.7	128.7	12.5	North Sea Fund	072 522 0255			Target Wind/Powr. Fund	01-319 4212
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## **NEW YORK STOCK EXCHANGE COMPOSITE PRICES**



## MONDAY INTERVIEW

## Down from the dour heights

Yitzhak Rabin, Israel's former Defence Minister, talks to Hugh Carnegy

You could say that when it comes to crises in the Middle East, Yitzhak Rabin has seen it all before. He was Chief of Staff during Israel's stunning victory in the 1967 Six Day War, Israel's ambassador in Washington during the Yom Kippur War of 1973, Prime Minister when Israeli forces rescued hostages from Entebbe in 1976.

Indeed, until a few months ago he was Defence Minister, conducting an often ruthless campaign against the Palestinian uprising - the intifada - that erupted against Israel rule in the occupied West Bank and Gaza Strip in late 1987.

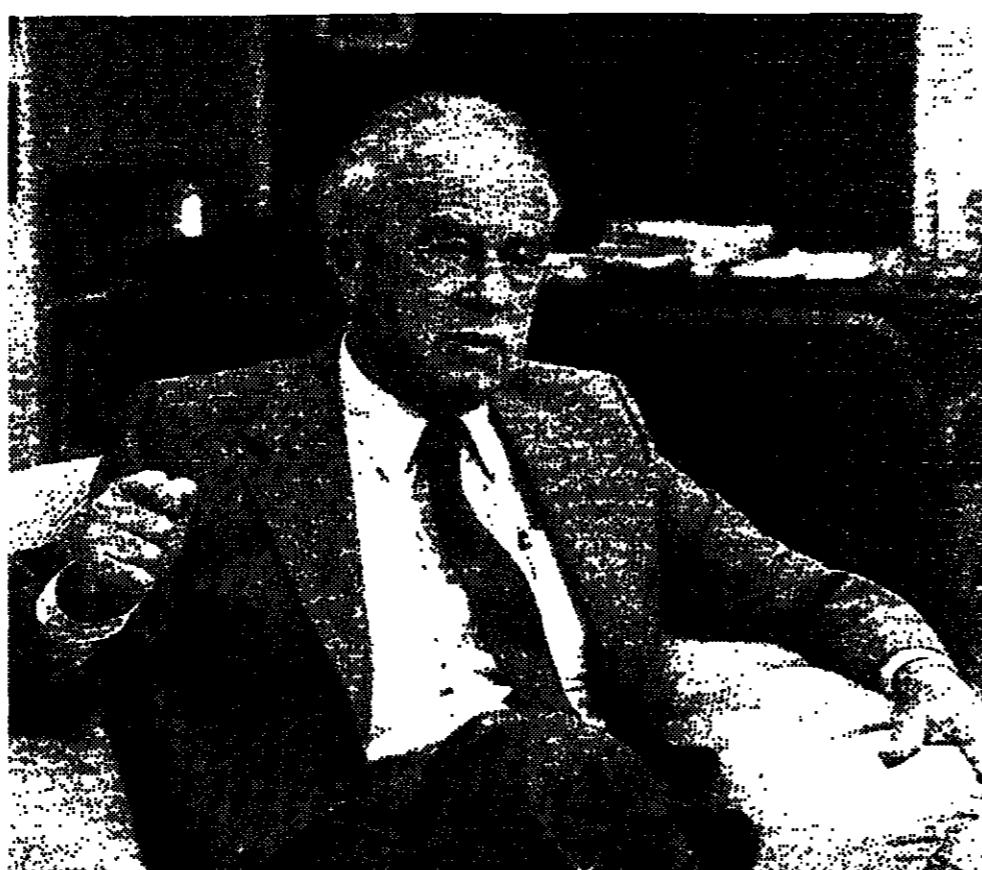
Sitting at his desk in Tel Aviv last week in a building almost enveloped in the sprawling Defence Ministry complex, it was easy to imagine he was still at the centre of events as he talked in his characteristic growl about the Gulf crisis. The impression was not dispelled by his habit of springing his sometimes tortured sentences - Israeli syntax is not much better - with liberal doses of the governmental "we."

Perhaps the chief tell-tale of his actual current status as an opposition Labour member of parliament was his relaxed, almost impish, mood, a contrast to the dour demeanour he tended to wear in high office. He can afford a more detached view of events for the time being - although, significantly, he is the only opposition figure to have been briefed privately on the Gulf crisis by Mr Moshe Arens, his successor as Defence Minister.

His view of the confrontation - that it is "first and foremost" an inter-Arab dispute that Israel should keep out of unless it is attacked by Baghdad - does not differ much from that of the Government. Indeed, he says that so far he has no quarrel with the way Mr Arens and Mr Yitzhak Shamir, the Prime Minister, have conducted themselves.

Mr Rabin compares Mr Sadam to the late President Nasser of Egypt, the great Arab nationalist whose ambitions threatened Israel but ended in defeat. "Let us not forget how Gamal Abdul Nasser ended and what kind of misery he brought on the Egyptian people and the Arab world. I hope the same will happen to Saddam Hussein." Meanwhile, Israel must remain militarily strong "for a long time."

Beneath this typical Israeli truculence, however, Mr Rabin does not profess the clear impatience within Mr Shamir's Government for the US-led forces in the Gulf to move quickly and decisively against Iraq. He does not doubt the seriousness of the threat a vic-



**'Yes, I will be a leadership candidate again'**

Arafat lost tremendously not only in Israel but also in Egypt and in other countries. Once the PLO is reduced, the chances for moving ahead with the Palestinians in the territories will be improved no matter what they say openly."

But doesn't this view ignore the possibility that the US, frustrated by the repeated stallings of Mr Shamir on Israel's own plan, may take a different, tougher tack, especially if it wins favours to other Arab states with direct disputes with Israel such as Syria? Even before the Gulf crisis erupted there was some

**PERSONAL FILE**

1922 Born in Jerusalem. Educated at the Agricultural School, Kfar Tabor.  
1941 Fought in allied invasion of Syria.  
1948 Fought in Israel's War of Independence. Joined Israeli Defence Forces after establishment of state.  
1964-68 IDF Chief of Staff.  
1968-73 Israeli Ambassador to US.  
1974-77 Labour Prime Minister.  
1984-89 Minister of Defence.  
1990 Labour member of Knesset.

anxiety in Israel that the Bush administration might lean towards the idea of an international conference on Middle East peace, a proposal previously rejected by both Washington and Israel as bound to be biased against Israel.

Mr Rabin accepts that "no doubt" Washington will want to move on to deal with other conflicts in the region if it emerges successful from the Gulf conflict. He insists, however, that Washington should stick to the path established by the Camp David Accords of 1979, as the Israeli 1989 plan was designed to do: that after peace between Israel and Egypt, the next step should be the two-stage settlement of the Palestinian issue, bringing in Jordan at the second stage,

and only after that should other conflicts such as that with Syria be tackled.

He is clearly unmoved by Arab - and western - frustration that in the 10 years since Camp David, Israel has done little to advance events with the Palestinians. "Any attempt to cope simultaneously with the whole complex of problems of the Arab-Israeli conflict will lead to an illusion of solution and will result in deadlock," he says firmly.

Underpinning Mr Rabin's view is an essentially cautious assessment of the conditions likely to exist among Israel's neighbours, given the isolation of Iraq.

"The Syrians started to realise Saddam Hussein's ambitions earlier than any other country except Israel," he says with a warrior's respect for a canny enemy. This explains the move by Damascus into the US/moderate Arab camp, he says, but he doubts it implies a softer Syrian stance on Israel.

He contemptuously dismisses those rightwingers in Israel who would like to see the fall of King Hussein and a Palestinian state in Jordan. "I prefer to see Jordan remain an independent state and under the Hashemite regime. And I believe there are good chances that once Iraqi policy towards Kuwait proved to be a complete failure and a setback for Iraq, Jordan will be different, under King Hussein."

Mr Rabin knows, however, that Israeli policy now lies in the hands of the Likud, many of whose members take a very different view of the issues, not least rejecting Labour's acceptance of the principle of accepting land for peace. His approach may be outdated in the post-Gulf crisis Middle East. After all, Mr Shamir himself has made overtures towards Syria and has said clearly he wants wider Arab-Israeli rapprochement to proceed alongside any progress on the Palestinian issue.

That simply invites the international conference idea that Mr Shamir has so rigorously rejected, says Mr Rabin, "especially in the new circum-

stances that have been created as the result of the revival of the UN as the main instrument in dealing with the Iraq-Kuwait crisis."

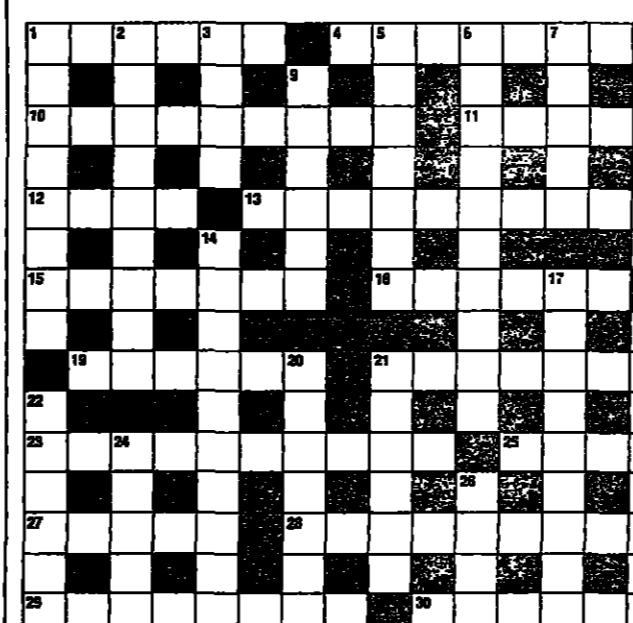
As these issues evolve, the majority of Israelis who regularly place Mr Rabin at the top of political popularity polls may well regret that he is not playing a central part in them. Labour looks further from power than ever following its withdrawal from coalition with Likud in March - a decision Mr Rabin says is now exposed as a major mistake. Its best hope would seem to lie in some unheralded shift in Israeli opinion caused by a mixture of the present crisis and the domestic challenges of absorbing hundreds of thousands of Soviet Jewish immigrants.

Yitzhak Rabin's challenge to replace Mr Shimon Peres as party leader shortly after Labour stumbled into opposition was thwarted by Mr Peres's supporters, although a leadership contest is likely next year. Will Mr Rabin, now 68, be a candidate again? "The answer is very simple. Yes."

Even goodwill seems quite inadequate to break bad habits. General Motors's management has been trying to improve relations as hard as it has been trying to improve its products. The cars are now better, and regaining some market share; but relations remain sour. The company has closed plants permanently rather than idling them, to honour the letter of an agreement to refrain from lay-offs; the plant with the largest number of

**CROSSWORD**

No. 7,331 Set by TANTALUS



**ACROSS**

- Underworld goddess could possibly teach English (6)
- Many in place working for steward (6)
- Steel part mixed with potassium nitrate (9)
- Make suitable for a lawyer going to print (6)
- Travel leader starts in mosque at midday (4)
- Fence and 1 with power tool produce rosewood (10)
- Plant seen when eating out with bridge player (7)
- Keeper - he is suspects monkey is here (6)
- Mystery points to Magi movement (6)
- Girl has a drink viewing curtain fabric (7)
- Law violation at home by a few (10)
- Leave out nothing with German (4)
- Irishman takes in fashionable make-up (5)
- Cocktail for a New Yorker? (9)
- Rock may be older I note (8)
- Allow licence (6)

**DOWN**

- Warren in Sussex? (8)
- Officer with gun has Irish dish (9)
- Bureaucracy if this is read aloud! (4)
- 27 in this studio (7)
- Two women provide an organ stop (10)
- Quiet apprentice has help manufacturing cloth (5)
- Forger with wrong to overcharge (5)
- Way had weather creates tension (6)
- Call teacher - he's at the circus (10)
- Final demand last month - I go to mother with little Mary! (9)
- Number one vehicle brought up for French drill master (8)
- Article dropped from tray (7)
- This staff improving pitch? (6)
- Lord entertains African warriors, that's clear (6)
- Superfluous ornament makes father unwell (5)
- Auction in Greater Manchester (4)

The solution to last Saturday's prize puzzle will be published with names of winners on Saturday September 15.



**JOTTER PAD**

# The domestic pains of Labor Day



**By Anthony Harris**  
in Washington

bull market to return for a long time, not on account of the Gulf crisis, but because of tight money world-wide.

A sick stock market seems to have few friends left in Washington; both the Administration and the Congress now seem to regard a half per cent tax on market transactions as a politically acceptable way to cut the deficit, although it would depress prices further. A Congressional report rubbishing President Bush's proposed capital gains tax cut has gone almost unnoticed: who has gains to tax? Meanwhile, the property recession has spread even to California. This has undermined the alternative home of easy money.

Too many American executives in the Reagan years saw their jobs primarily as a way to enhance their credit ratings. Now the US private sector has not improved, either, when GM announced a huge rise in management pensions on the day it told the unions it could not afford to protect worker pensions against inflation.

It seems, then, that it takes more than Board decisions to break national habits; but now there is some hope that the threat of a recession - now recognised as a probability by a good half of financial forecasters - will probably work.

For Washington, however, this solution is a grave problem. The Reagan-Bush dream of growing out of deficit is just that - a dream. The reality is the President, the Secretary of State and the Secretary of the Treasury out with their bigging bows, seeking finance for the Gulf operation. The national debt has tripled since Mr Reagan first invited Americans to stand tall; they are stooping under the burden.

The Gulf crisis offers an opportunity to cut the knot. President Bush has a new prestige, and could readily lead the country to the solutions which everyone knows are necessary, starting with a swinging energy tax. There is no sign of it yet, though. The great statesman shrinks like a circus illustration when he revisits the domestic scene, complaining about the Press, attacking the Democrats whose support he must win, retreating from any mention of specifics.

Even his supporters sigh. Mr Bush invites the comparisons he most most like to avoid - an honest Nixon, a Republican Carter, a giant on the world stage but inept and directionless at home.

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# Russia prepares for the longest five hundred days

The idea that the Soviet Union can be transformed into a capitalist economy in 500 days appears implausible, let alone a reality. The hope that this can be done without slashing living standards, creating mass unemployment and unleashing hyper-inflation seems simply fantastic. But these days, fantasies keep turning into realities in eastern Europe. So why not expect an economic miracle from Mr Boris Yeltsin, the Russian leader, to match the political miracles achieved by President Mikhail Gorbachev in the last five years?

Mr Yeltsin's 500 days economic programme will probably be derided by western experts as both naive and over-ambitious when it is spelt out in full at the end of this week. But in its own terms, it has a good chance of success.

The new economic policy may not raise statistically measured living standards nor accelerate the country's GNP growth rate. It will probably reduce productivity and will certainly decimate industrial investment. It may also damage the foreign trade balance and will probably turn the Soviet Union into the world's second biggest debtor, after the US. But all this will be beside the point if the new economic policy achieves its one central purpose: creating a market system that will reflect the wishes

"goods" in the western system of values but have no value for Soviet citizens, at least for time being.

New steel mills and petrochemical works certainly fall into the latter category in a country which is not only literally choking on its heavy industries' pollution but also finds its transport system clogged by their unnecessary output.

In fact, deep cuts in industrial investment, as well as defence spending, have been deliberately made a cornerstone of the economic transformation. The Soviet Union is uniquely fortunate among the former communist countries in being able to make this choice without risking massive macroeconomic problems. The Czechoslovaks need to sell guns and machines to pay for oil and raw materials; the Russians do not. If the Soviet Union closed down its entire defence industry and went on paying the workers to do nothing, it would be no worse off than it is today.

But cutting back on investment and defence are only two examples of a much broader approach which should allow the Soviet Union to make economic strides in the next few years, even the danger of inflation, the shortage of foreign exchange and the difficulty of structural transformation continue to constrain its

GNP growth.

This brings us back to consumer sovereignty. The GNP will not immediately increase when the one type of toy truck with razor sharp edges is replaced by five better designed models. The GNP may actually decline when wholesale distribution becomes reliable enough to persuade Soviet consumers to stop hoarding sugar, flour, soap, tea and everything else they buy to absurd excess solely because it is a "deficit item."

There will certainly be no gain to measurable economic output when fast food restaurants stop smelling like public lavatories or when shop assistants start treating customers with common courtesy instead of swearing under their breath at anyone who has the temerity to ask to buy their wares.

Yet all of these changes will surely come, and come quickly, when the Soviet Union turns into a market economy. Inflation may rise and output may fall. But restaurants will open at night. Taxis will stop when halled. Houses will be built and not abandoned half-finished. Washing machines and video will suddenly appear in the shops, even if they are initially beyond the means of most customers. For 500 days at least, these things will be miracles enough for the Soviet

1990/150

## INTERNATIONAL SETTLEMENT &amp; CUSTODY

## SECTION III

Monday September 3 1990

**TOP**  
Improvements in international settlement efficiency lie just around the corner. Global custodians think they stand at a crossroads and are busily preparing for the changes which better settlement will bring, as Andrew Freeman explains.

## Rethinking the package

THE DRIVE to improve international securities settlement has become an outstanding feature of financial markets in the late 1980s. Its importance has risen in parallel with concerns that efficient capital flows depend on the performance of settlement mechanisms around the world.

The rise to prominence of global custody has been inexorably linked to the rise in concerns over systemic risks in international securities trading. As efforts to improve the world's settlement infrastructure continue, the custody product is maturing, moving towards an information provision service.

This is a considerable change for a banking product which was largely unknown until a few years ago. Its role in administering the investments of pension funds and fund management companies has long been vital in enabling and encouraging cross-border capital flows.

Throughout the 1980s, banks, led by the large US commercial players, found it easy to persuade funds to pay them a fee for handling settlement, safekeeping and portfolio reporting as they ventured into new, risky markets. New

entrants poured into the custody market. In London, for example, the number of custodian banks is said to have jumped from nine in 1988 to 22 a year later.

The weaknesses of the settlement mechanisms in many of the markets that became hot investment centres - Spain and Italy, for example - were seen as largely local difficulties until the impact of the October 1987 worldwide crash.

Then, senior figures in the banking and securities industry were heard to ask urgent questions about the back office. The Group of Thirty, an influential think-tank, became the focal point of international efforts to improve the standard of global settlement efficiency.

Its involvement was marked by a now familiar set of recommended features for an efficient market, published in March 1989.

Earlier this year, it held a follow-up symposium in London where 17 nations reported on their progress towards the implementation of the recommendations.

The reports were broadly encouraging. Complementary remarks were made about the extraordinary concentration by countries seeking to bring

their infrastructure up to scratch. Hopes were raised that inter-market links and an improved network of securities depositories will ease back office delays.

But the delegates were forced to be realistic about the difference between intention and practice. The improvements sought in many markets cut right across existing methods of settlement and often threaten vested interests. The symposium was explicitly told that the hard work of implementation lies largely in the future.

### Implications

Alongside the Group of Thirty, the International Society of Securities Administrators has expanded its role in encouraging settlement improvements by pulling together operations staff from around the world and trying to establish solid definitions for global custody and its related functions.

If the true extent of settlement improvements remains to be seen, there is no doubt that any changes for the better will have significant implications for custodians. The prospect of worldwide settlement effi-

ciency threatens to alter the nature of custody as a service, placing the emphasis less on settlement reliability and much more on the accurate provision of portfolio information.

Mr Marshall Carter, head of Chase Manhattan's global custody business, says the underlying securities transaction is becoming the least problematic part of the service: "It's all the peripheral things, the tax reclaims, the dividends, the asset valuations, that take the time and effort."

He cites the example of the way dividend payments can bunch in a single market, creating an administrative challenge for the custodian - "one day last year, we received a dividend credit worth \$500m from our Japanese sub-custodian."

"Within 24 hours, we had to post the due funds to every client account," he says.

Until relatively recently, many custodians believed that efficiency would be limited to the world's main markets. However, the message from emerging markets, particularly in Asia, is that the lack of previous systems has been a net benefit, allowing the introduction from scratch of some

impressive mechanisms. Two custodian banks based on the West coast of the US - Bank of America and Security Pacific - are well positioned to monitor the progress made by markets like Taiwan and Malaysia as they try to establish technologically sophisticated settlement systems.

Mr Robert Darmanin of Bank of America recently toured the Asian markets and was profoundly impressed by the changes - "we are seeing whole capital markets being born," he says. "As a region, Asia is fast catching-up with Europe."

Taiwan has attempted one of the world's most ambitious book-entry systems, aiming to cater for institutional as well as retail investors. Like the UK, it has wrestled with the need for a dual market system. Unlike the UK, it is carrying out a unique experiment using a passbook system.

The idea is that a passbook in which all trades and positions are entered via a magnetic stripe will give small investors the sense of physical ownership they cherish. The hi-tech stripe allows the merging of an electronic system with a retail culture, vital in a market where retail business is

still 80 per cent of turnover.

Taiwan's locally developed answer to the settlement challenge is still being tested before implementation. It found an unlikely partner in Malaysia. Anxious to claw back business in Malaysia equities from the Singapore exchange, Malaysian financial authorities travelled to Taiwan and bought its system with money from the government. Visitors say the two exchanges appear identical except for the staff.

### Expansion

Security Pacific, through its Sequoia group, is setting up a real-time information service in a series of regional offices in Asia to attract the business of large broker-dealers, expanding a facility it has run successfully in Tokyo. Mr Richard Pregrato, a managing director, says: "Where clearing is still physical, we need our own bricks and mortar."

From a wider perspective, it appears that the providers of custody services will have to adapt to a more efficient world. Profit margins will inevitably come under pressure as clients seek to lower their transaction costs.

That has led some of the leading custodian banks to consider new ways of growing their business. It seems increasingly likely that the number of large players will contract over the next decade, leaving a pool of banks offering private-labeling as well as direct custody.

This will allow, for example, a UK fund management group to sub-contract its custody (traditionally offered free to clients and rolled in as part of general management charges) to a specialist, lose the back office overhead and concentrate on its investment skills.

This prospect was first mooted several years ago, but according to bankers has resurfaced, driven by the costs of running a back office. At least one US bank is actively developing what it describes as a third party processing business which will offer straight settlement services to companies without their end clients knowing about the arrangement.

The main difficulty with this service is the private client business typically held by many fund managers. Custodians say a multitude of small accounts can only be handled efficiently in an omnibus account.

### IN THIS SURVEY

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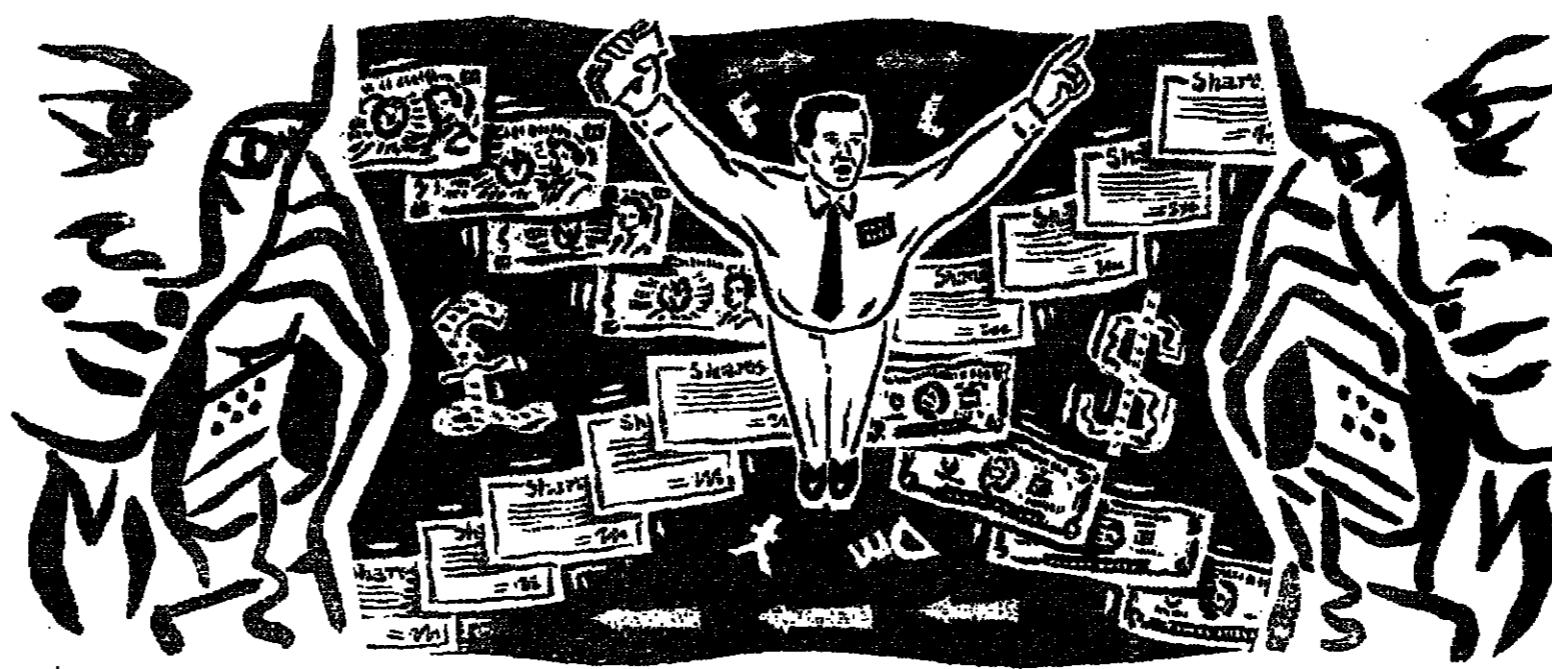
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## INTERNATIONAL SETTLEMENT 2

The stock-lending market has received a much-needed fillip

## London is now expected to re-emerge as the centre

THE GROUP of Thirty's recognition that stock lending has a important role to play in the improvement of settlement gave the market a much-needed boost in the eyes of the regulators.

The G30's acceptance is particularly important for the international stock-lending market in the UK, because, since August 1989, both lenders and borrowers have been fighting to reform regulations that halted the development of a lucrative market.

The signs are that a workable solution will be reached by the end of September; and the banks, intermediaries and new entrants such as Robert Fleming are confident that London will be able to re-establish itself as the centre of international lending.

Stock lending typically involves an investment institution's lending stock to a marketmaker, who uses the stock to cover a short position or complete a failed trade. The borrower deposits collateral for the period of the loan and pays the lender a fee.

International stock lending involves the loan of securities held outside their domestic market. It developed in the early 1980s, when foreign securities houses imported the practice to Tokyo.

"You are not allowed to fail in Japan, so there is a strong demand to borrow stock," explains Mark Haas, at Lehman Brothers International, in London.

Since Japanese institutions were effectively barred from lending stock, the growing Japanese equity portfolios of UK and US institutional investors provided the source of stock. Mr Haas estimates that the value of non-dollar and non-sterling denominated stock currently on loan at between \$4bn and \$5bn. Others put the figure closer to \$6bn.

Now the importance of Yen denominated securities has begun to recede. The sharp fall in the Japanese equity market earlier this year and the decline in warrant arbitrage has reduced demand.

Richard Cordiner, who runs the stock-lending program at

Manufacturers Hanover Trust, in London, estimates that Japanese securities at present account for 40 per cent of international stock lending, compared with 75-80 per cent two years ago. The remaining 60 per cent is made up principally of German, French and Australian stock.

Market participants point to the development of the options markets in these countries as the key to the growth in demand. The growth in the supply of loanable stock reflects the high fees that these transactions can generate. It is also helped by the relative scarcity of institutions with foreign equity holdings large enough to participate, which has meant that the fees for stock in the more illiquid markets, such as Australia, can be equivalent to 3 per cent pa, compared with less than 1 per cent for UK stock.

The potential for profit has attracted a range of institutions eager to act as the market's intermediaries. The most obvious group are the global custodian banks, which, by pooling the assets of a group of clients, have enough international stock to make lending programmes viable. Custodians are now keen to promote the concept of international stock lending to their clients, putting forward the idea that a properly managed programme can be used to offset custody fees.

But many institutions remain sceptical about this benefit, pointing out that, where a custodian arranges and takes on the risk for a deal, it takes a cut (usually 40 per cent) of the fee.

The second group are international securities houses, such as Morgan Stanley, Lehman Brothers and Prudential-Bache. As Peter Demmer, of New York consultants Demmer Fleming, explains, there is an underlying tension between the two groups. The brokers generally have better access to the borrowers, while the custodians have closer ties with the lenders. "Each side is keen to play down its dependence on the other," he Demmer.

Something about which there is no disagreement in the



Timothy Daily: the Revenue has been 'extremely helpful'

market is the need for the reform of existing regulations governing international stock lending. In August 1989, in the Income Tax (Stock Lending) Regulations 1989 (SI 1989), the Inland Revenue defined all securities held by UK paying and collecting agents as UK securities; and UK securities

report was the formation by the International Stock Exchange of the Stock Borrowing and Lending Committee. Its aim is to examine the needs of market participants in the context of the regulatory authorities and the development of Taurus, the paperless settlement system.

One of the results of the G30 report was the formation by the International Stock Exchange of the Stock Borrowing and Lending Committee. Its aim is to examine the needs of market participants in the context of the regulatory authorities and the development of Taurus, the paperless settlement system

can only be lent to authorised UK money brokers. The effect of the legislation was to lock up the vast pool of foreign securities held by UK institutions. A secondary effect has been to make institutional investors wary of publicising their involvement in the market.

One of the results of the G30

has spent much of the past year unravelling the confusion caused by SI 1989.

Timothy Daily, chairman of the International Stock Lending Association, and a member of the SLBC, is confident that a solution to the problem will be reached by the end of September. He says that the Revenue has been "extremely helpful" in

attempting to improve the situation".

The exact nature of the solution has yet to be decided, and Mr Daily says there are number of possible ideas still being discussed. He is confident, however, that an announcement will be made before the end of September.

The most talked-about solution among the custodians and intermediaries, is that the SLBC will recommend that UK institutions be able to lend international stock to a pool of approved borrowers.

The pool idea should allow houses like Morgan Stanley, which run international stock lending operations but which do not have UK money broking licences, access to UK institutional assets. The market believes that the Revenue will favour this solution, because it will allow it to keep a check on the issuance of tax vouchers for the income of stock on loan - although, as Mr Cordiner explains, the kinds of institutions large enough to participate in the international market are unlikely to attempt large scale tax frauds.

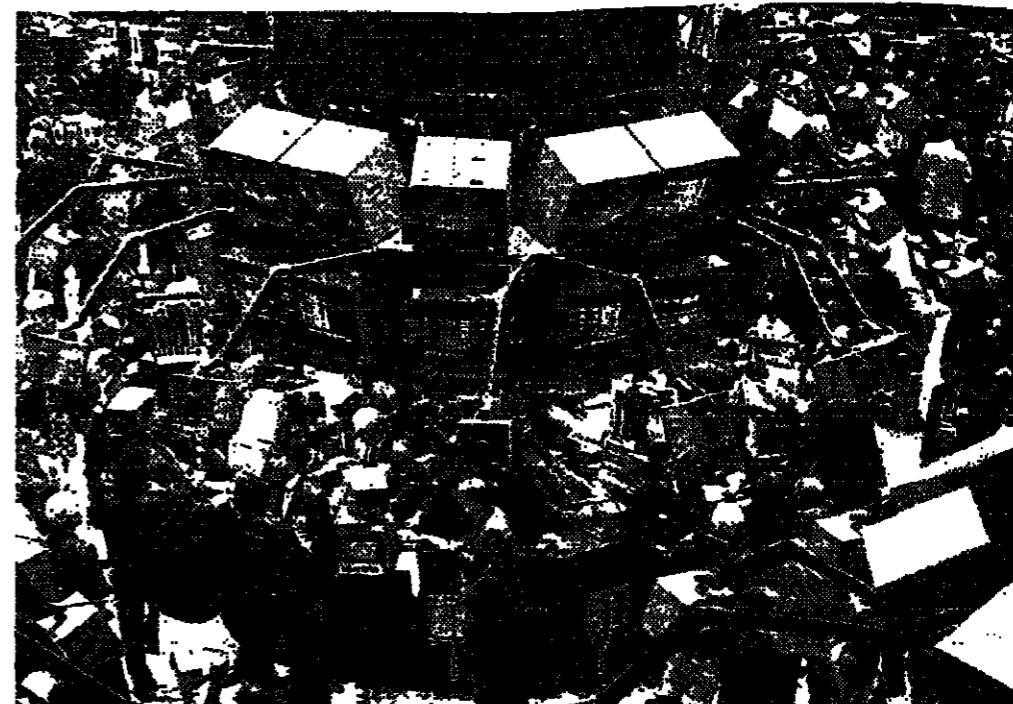
While the pool idea would certainly meet the aims of the regulators, many participants feel that it would be at best a compromise solution, imposing a UK regulatory framework on what is a global business.

Mr Cordiner, for one, is concerned that this solution would pose difficulties for UK institutions using the automated lending systems run by Euroclear and Cedel, as well as those using the US stock-lending programmes run by banks such as Chase Manhattan in New York. As one custodian banker at a UK clearer noted: "International stock lending simply doesn't fit into national regulation."

There is also a sense of urgency among participants. The fees available to lenders are already beginning to fall. Two years ago, fees for the loan of Japanese stock were as high as 3 per cent; they are now in the range 1.5-to-2.5 per cent.

In the longer term, the movement towards dematerialisation and harmonised settlement procedures will make the process of lending easier, and therefore more attractive to the institutions, which should bring the fee levels down considerably. For that reason, institutions and intermediaries are keen to accept even a compromise solution if it means they can get back to lending soon.

Charles Harrington



The New York Stock Exchange: the bull market of the late 1980s caused a paper jam

Glyn Genin

In the US, Desmond MacRae explains...

## How depositories raise efficiency

THE UNITED States is probably as close to meeting the Group of Thirty's nine recommendations on clearance and settlements as any of the world's major markets.

The key to market efficiency in the US is its depositories: the Depository Trust Company (DTC) and the Participants Trust Company (PTC). Both are incorporated as limited trust banks to conform to US law.

Both act as clearing houses by immobilising physical securities and by safekeeping and transferring ownership of corporate and municipal securities; and, in the case of PTC, Government National Mortgage Agencies instruments.

Both depositories also safekeep and clear dematerialised securities - that is, those which are originated and traded electronically and have certificates available for investors.

Founded in 1972, DTC now has some \$4,000bn of securities in its vaults. In 1989, it cleared equities and corporate and municipal bonds worth \$9,200bn

than in 1988. A comparison of these figures - which shows that DTC annually clears trading volumes greatly in excess of total US stockmarket capitalisation - testifies to its efficiency.

PTC, founded in 1989, is one-fifteenth the size of DTC, and is exclusively a depository for Government National Mortgage Agency (GNMA) instruments. GNMA's are pools of securitised mortgages grouped by coupon, guaranteed by the US Government, with monthly principal and interest payments.

Through immobilisation, DTC will continue to play a key role both in the eventual total dematerialisation of the US, and in the US ability to conform to the Group of Thirty recommendations. More than 90 per cent of the US securities are deposited in these three clearing entities.

The chief hindrance to dematerialisation, or total electronic clearing, is individual buyers of municipal bonds - fixed-in

Continued on facing page

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## INTERNATIONAL SETTLEMENT 3

## Profile: Brown Brothers Harriman

## Sound relationships seen as the route to profits

**BROWN BROTHERS** Harriman is the only major private commercial bank operating in the US. A small bank, with some \$12bn in deposits, and 38 partners, it offers very quietly, a full range of sophisticated commercial banking services - although not to everyone.

"We are very selective," says Douglas A. Donahue, the partner in charge of global custody. Indeed, Mr Donahue reports that in several years, he has turned down billions of dollars

worth of assets in potential business. The principal reason is that Brown Brothers is the antithesis of the American norm of transactional banking. Believing firmly that sound relationships are the key to banking profits, it has eschewed growth for its own sake, and chosen clients whom it expects to get to know intimately and to be associated with for a very long time.

Founded in 1818 in Baltimore, the bank's main office is

## US approaches G30 standards

Continued from facing page come instruments issued by the US state and local authorities. Because municipal bonds are exempt from US federal taxes, some 50 per cent of the \$30bn are bought by well-to-do individuals, most of whom are over 40 and not yet comfortable with proof of ownership residing in a very few electronic files.

"The paper crunch of the late 1980s was the catalyst for creating DTC," says William T. Dentzer Jr, who has been chief executive since its formation in 1972. Equity trading volume in the bull market of the late 1980s had jammed transfer agents' records. Because of the paper jam, record-keeping was erratic. An entire financial system, envied in many parts of the world for its ability to raise capital, was threatened.

In late 1970, the New York Stock Exchange entered an agreement to spin off its Central Certificate Service, the predecessor of DTC, with the American Stock Exchange, the National Association of Securities Dealers and the major New York city banks, represented by the New York Clearing House Association, into a separate entity.

DTC's mission was, and still is, to reduce costs for the 600 banks and brokers that often act for more than 3,000 other domestic and foreign banks, brokers and investment managers. DTC makes a profit but keeps only what it needs for operating income. It distributes the excess to participants at the end of each year.

DTC is charged to do the three things: a clearing house often does confirm trades; net transactions; and deliver against payment. Beginning with exchange-listed equities, DTC has moved steadily into unlisted equities, corporate bonds, and municipal bonds. On October 5, it will be the sole electronic depository for US commercial paper which, until

## National stockmarket capitalisations

Capital value (\$bn): end 1989

Japan	4,251
US	3,029
UK	822
West Germany	354
France	340
Canada	291
Taiwan	250
Australia	203
Switzerland	171
Italy	170
The Netherlands	158
South Korea	141
Spain	123
Sweden	120
Hong Kong	79
TOTAL	10,502

\*1989 year-end approximations. The capitalisation of any specific country's stock exchanges, and thus national totals and rankings, will not be because of domestic market cycles and currency fluctuations.

March 1990

Source: Birnly Associates, NY

institutional private placement rule 144A. DTC now has the first of such issues in Atlas Copco, a \$1bn Swedish American Depository Receipt issue, the US tranche of class-B shares of an international issue. DTC has six global issues, in excess of \$3bn, from the World Bank, Citibank, and the First National Bank of Chicago, among others.

Mr Dentzer expects to see the international side of DTC's activity continue to grow. He also expects to see more securities issued as book entry only (electronic). "But," he says, "this may well happen more slowly than other observers are predicting."

In the 1970s, the US saw the growth of GNMA that distributes both principal and interest monthly. Administrative complexities grew, as is now a \$590bn market. Founded in March 1989, Participants Trust Company (PTC) is owned by 16 banks and 12 broker-dealers, and is led by John J. Scoppe, whose 15 years with Irving Trust Company, followed by 10 years with Salomon Brothers gives him an ideal background.

An important by-product of depositories is the US has been ease in securities lending, a common practice that has a compelling economic rationale.

"In the US, domestic securities lending programs permit custodial customers to earn additional income on their portfolios with minimal risk and involvement," says Robert Tetzenbaum, a leading financial services consultant with First Manhattan Consulting Group, New York.

Many custodians have direct computer links with DTC, which makes lending even more efficient. US custodians note that lending can sometimes pay for all portfolio custodial charges, and even earn lenders extra profits. They report that offering lending as part of a package of domestic securities services is frequently critical to winning an account.

US depositories have achieved efficient immobilisation, and in some cases dematerialisation. "Many members of the Group of Thirty's various national working parties believe that, because of the efficiencies they offer in clearing and settlements, US depositories, particularly DTC, are suitable models for other countries," says Mr Tetzenbaum.

Indeed, these depositories are why the US is very close to conforming fully with the Group of Thirty's March 1989 recommendations for speeding global clearance and settlements.

Many custodians have direct computer links with DTC, which makes lending even more efficient. US custodians note that lending can sometimes pay for all portfolio custodial charges

now, has been a totally physical market.

Until 1989, DTC was thought to be exclusively a US domestic depository, but quietly it has been moving into clearing global securities. Sometimes criticised for moving too slowly, Mr Dentzer points out that globalisation of investment is relatively new in the US. He was not convinced that DTC could perform a useful function in London, for example, by opening a depository there.

"The British are establishing their own depository within the Taurus project, which we think is the proper way to do it," he says.

But DTC is becoming a primary US link in global clearance and settlements. Recent issues for Citibank (\$1.4bn settled at June 6), Merrill Lynch and the World Bank will be settled simultaneously at DTC, Euroclear and Cedel, with DTC holding the certificates. These institutions will issue simultaneously in different currencies, to be settled in any country that has a local bank participating in Cedel or Euroclear, or in DTC in the US.

DTC also has the American Depository shares of foreign issues sold in the US under

now in New York, with other offices in Boston and Philadelphia, as well as London, Paris, Zurich, Tokyo and Hong Kong. There is also a wholly-owned subsidiary, providing full banking services in Luxembourg.

This list gives a clear idea of the type of business the bank seeks. It has long been extremely active providing cross-border custody services for various kinds of assets.

Brown Brothers cares for more than \$60bn in assets for non-US financial institutions, and for \$35bn in non-domestic assets for registered US mutual funds and other US investors.

In soliciting new accounts to add to its present base of global custody clients, Brown Brothers emphasises high operating standards, a commitment to automation, and highly customised services. "The bank's strategy is to concentrate on providing the high quality of service to a limited number of large clients," says Mr Donahue, who runs global custody

corporate banking services, particularly foreign services, for selected corporate clients. This concentration allows the bank really to know them and to achieve a strength of service that "transcends size", as Mr Donahue puts it.

Throughout its 172 years, Brown Brothers has been active in international trade, offering an expertise in bills of trade, foreign exchange, letters of credit and shipping. The bank's involvement in the cross-border custody business is a natural outgrowth from its early correspondent banking relationships, related to trade financing activities. Unlike many of its American competitors, it is not a relative newcomer to global clearance and settlements.

Among the 300 accounts, represented in \$100bn under global custody, \$35bn are non-domestic assets of such as: Fidelity Management & Research, Fidelity International, Merrill Lynch Asset Management, Scudder, Stevens & Clark, Pioneer Management, Putnam Management, Alliance Management, Prudential Capital Management, and Yamaichi

Capital Management. Brown Brothers was recently selected as custodian by the \$12bn Alaska Permanent Fund Corporation, in a competition that included 20 entrants.

Most global custodians now know they must provide service in three dimensions. Clearance and settlements are the first two, with problems greatly complicated when the third, multi-currency dimension is added.

In 1978, Brown Brothers was one of the first custodians to offer clients direct electronic interface with Depository

that is necessary to satisfy the stringent requirements of the US Employee Retirement Income Security Act of 1974, as is the case with its recently acquired client, the Alaska Permanent Fund.

The bank's global custody network is characterised by flexibility. It is able to co-ordinate and control a sub-custodian network in some 38 countries outside the US. It claims to be a US pioneer in providing international custody in emerging markets, and has provided custody for clients in countries such as Brazil.

marketing global custody is to be very selective in choosing clients. Having once taken them on, the bank provides a wide range of services to assist the client in doing whatever he needs to do. Rather than offer a service, with reasons why a client should buy it from Brown Brothers, the bank searches for clients who are established financial entities, who will grow, and who value dedicated, customised service.

The strategy is to concentrate on client relationships with major international investors, and integrate their operations with the trading and accounting systems of clients

FOR State Street Bank, a marketing strategy for global custody began in the 1960s, when the bank started to provide US custody services for European financial institutions... By the late 1980s, all the pieces leading to the present state of global custody were in place

□  
MASTER trusts continue to evolve, because Erisa continues to change and requires more complicated reporting all of the time

TWO MORE ARTICLES FROM THE US APPEAR ON THE NEXT PAGE

Agway Inc.	DFA Inc.	Henderson Unit Trust Management Limited	The Prudential Insurance
Allied Dunbar	Eagle Star	Hill Samuel Unit Trust Managers Limited	Royal Life Holdings
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ARMCO Inc.	Fidelity International	Honeywell, Inc.	Schroder Capital Funds, Incorporated
AT & T	Ford of Britain Pension Funds	The Kemper Group	Scottish Equitable Life Assurance Society
Britannic Assurance plc	Fuji International Finance (London) Ltd. Portfolio Management Division	LACERA	Shell Pensions Trust Limited.
Bull Worldwide Information Systems	General Dynamics Corp.	London and Manchester	Sun Life
Capital Trust Co.	Guardian Royal Exchange Asset Management Ltd.	McKnight Foundation	The Templeton Funds
Colgate Palmolive	The John A. Hartford Foundation	NM Unit Trust Managers Limited	Tennessee Consolidated Retirement System
Collegiate Retirement Equities Fund	HD International	Prolific Financial Management	The Upjohn Company
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INVESTORS CHRONICLE

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## INTERNATIONAL SETTLEMENT 4

## Profile: State Street

## A multi-regional approach

STATE STREET Bank and Trust Company, Boston, is a strong bank. With some \$10bn in assets, it returned 18.7 per cent on equity in 1989 - the eighth year in a row that this figure exceeded 15 per cent.

One of the main reasons for such performance is that 50 per cent of the \$675m earned in 1989 came from fees earned in processing securities trades.

In a world where most banks are scrambling to meet the accelerating schedule of Basle risk-weighted capital requirements, which will culminate in each bank needing 8 per cent core capital by the end of 1992, State Street already had core capital of 11.8 per cent by its 1989 year end.

This money came from retaining 14 per cent or more of its annual earnings over the last several years - earning made possible in great part by rendering financial services.

Officers of the bank say repeatedly: "If we don't provide superior clearing and settlements, we don't make it."

Founded in 1792, State Street became, in 1924, the custodian for the first US mutual fund. Finding this profitable, the bank gradually moved into a specialty niche. Today, its *raison d'être* is custody and safekeeping. State Street has more than \$835bn under custody, some \$50bn of which is in global custody.

In addition, the bank is a leading US manager of index funds, which "replicate" various measurement indices. Investing in replication funds guarantees portfolio managers standard average returns, which can increase the precision of actuarial portfolio performance expectations. If, for example, the Standard & Poor's index of 500 active stocks (S&P500) returned 16.54 per cent in a given year, an S&P500 index fund would have yielded the same return.

Growth of global custody assets in the US comes from recognition by US institutional fund managers that the Europe Australia & Far East Index (EAFE) has regularly produced some 22 per cent annually in the recent past. The standard for institutional equity measurement of US shares is the S&P500, which has yielded some 16 per cent. Coupled with academic studies showing

lower EAFE volatility, because of broadened diversification, some 8 per cent of US institutional assets are now in non-US securities.

It is widely expected this growth will continue until US asset diversification internationally reaches the 10 per cent mark, somewhere between 20 per cent and 30 per cent. Given that the US has some 30 per cent of the stockmarket capitalisation of the world's top 15 countries, 20 per cent of US equity capital, or some \$600bn will go abroad. This figure takes neither fixed-income (perhaps \$600-\$800 bn more) nor asset growth (15 per cent per annum compounded doubles in five years) into account. It is no wonder that US custo-

ment of the need to integrate these pieces. "I think it was in the late 1980s that the message about the need to expand our services globally began to be repetitively impressed on us," says Mr Gundy. Because the bank was already heavily involved in most specialised financial services, the step to perfecting and offering global custody as a product was easy to imagine.

Unlike other US custodians, State Street is taking a multi-regional approach, and it not centralising its operations. Anticipating that increasing numbers of large organisations will be looking for international services regionally, Mr Gundy sees the development of a multiple region relationship.

**A marketing strategy began in the 1960s, when the bank started to provide US custody services for European financial institutions**

dians are scouring the world for clients, nor that State Street, a leading custodian, is among them.

For State Street, a marketing strategy for global custody began in the 1960s, when the bank started to provide US custody services for European financial institutions.

"We began to seek European clients actively," says William E. Gundy, executive vice president and head of global custody. In 1974, the US Congress enacted the Employee Retirement Income Security Act (Erisa). In essence, this meant that pension plan sponsors had to provide uniform, and stringent, accounting of their activities. Banks saw an opportunity to provide a new service.

State Street is now one of the US master-trust business that grew up because of Erisa. While the other four - Bankers Trust, Chase Manhattan, Mellon and the Northern Trust - are much larger as measured by assets, they each admit freely that, in the master-trust and custody arena, State Street is a respected rival, both in the size of its assets in custody and the strength of services offered.

By the late 1980s, all the pieces leading to the present state of global custody were in place. Then came acknowledgement

He points out that multi-national corporations have different investment plans in different geographic regions. While they want accounting consolidation in the home office, he believes they prefer to leave the service capabilities in local time zones, so to speak.

One way to increase asset size is to offer private labeling - providing global-custody services anonymously to regional custodial institutions or broker-dealers, who tend to appear as international institutions to their present clientele or customer base, but who cannot spend the \$25m present estimates indicate are needed to build a global-custody network. Private labeling is an important part of State Street's strategy for survival.

Gundy acknowledges the need to have systems that operate consistently in all three of the world's regions, but that are adaptable to unique requirements of a given region. State Street has multi-currency securities and cash movement and control systems already in place. A good example of modification is a unique capital gains tax in Australia, which needs accounting treatment not required in any other of the world's markets.

State Street is proceeding strategically in two levels. The

Desmond MacRae

LIKE IBSEN's "Master Builder", the name master trust is inherently appealing. But just as Ibsen's architect bespoke competence and control on the surface yet presented different facets to different people, the phrase "master trust" has several meanings.

Whatever its operative definition in the eye of each builder, a master trust is an efficient instrument that is being used by US global custodians to increase global assets in their care.

In the US, where it originated in the eye of each builder, a master trust is an efficient instrument that is being used by US global custodians to increase global assets in their care.

The other level of strategy recognises that some markets today do not accept the master-trust approach fully. It may be some time before they do. In leading the horse to a trough of full global-custody service, State Street does not expect every horse will drink his fill immediately.

Behind all these efforts is the recognition that, as global custodial services become more efficient, fees will fall.

The question of critical mass, the size of custody assets needed to support running costs, product developments and maintain net profits weighs heavily on all global custodians. At present, critical mass is perhaps \$20bn in assets. State Street is currently very comfortable. But some American custodians are beginning to say that \$100bn in assets will be needed in the next few years.

Master trust is a bank product. An estimated \$2,700bn in master-trust assets, comprising virtually all of the pensions in US. "Its origins reach back some 50 years, when International Harvester pooled two of its retirement plans," says Jeremiah O'Leary, senior vice president and head of master trust for Chemical Bank.

This pooling fit the intentions of large US corporations, which usually had a single manager-custodian. By the mid-1980s, US commercial banks had captured some 70 per cent of this business.

But in 1987, articles about the performances of independent, non-bank advisers appeared. One Harvard Business School case study was particularly influential in providing a rationale for using pension managers, who were riding the very strong bull market of the late 1980s. Banks were edged out of investment management, as pension-plan sponsors began to hire independent "gunslingers" like Gerald Tsai to manage pension portfolios.

To salvage something, many banks fell back on portfolio record-keeping, which was being complicated by the use of multiple managers. Investment managers came to be separated from custodians, who were being called directed trustees.

Intuitively, this made eminent legal and auditing sense. In the early 1970s, the practice of using trustee custodians grew, and was made formal with enactment of Employee

Retirement Income Security Act (Erisa) in 1974, which set a uniform funding and reporting standards for aggregate pension plans.

Banks, who were already custodians for directed trusts, quickly acted to satisfy Erisa requirements. Master trusts appeared and continue to evolve, because Erisa continues to change and requires more complicated reporting all of the time.

"Reporting is very complicated," says Kathryn S. Pruim, a vice president in master trust with Manufacturers Hanover Trust Company, New York. She offers samples of quarterly reports for a specimen \$350m portfolio: 88 pages of a certified investment summary report; 18 pages of a management summary report; and 34 pages of performance analysis. In their constant search for value to add to an existing service, banks, those would-be alchemists of finance, continue to "enhance" the master-trust product.

"In short," says Allan Martin, senior vice president and head of global custody for Bankers Trust Company in New York, "master trust evolved from being a specific service to offering a menu of services."

In the UK, where the functions of trustee and custodian are often separated, the term master custody is used more commonly. Both terms now mean all-in reporting of all portfolio activity and performance measurement.

By the late 1970s and 1980s, virtually all major US pension funds had single master trustees, but retained multiple managers. Reasons for using a master trust format are simple: their comparative experience shows it saves considerable time and money.

Two final elements have been incorporated recently in the master trust product. One is the proliferation of unique investment instruments. In the realm of securitisation, there are the examples of CARDS and CARS; in bonds there are CATS and TIGRS; in currencies, there are look-back options and collars; and in equities, there are killer war-

## Master trusts

## Revived by retirement



Alan Martin: 'a menu'

trusts. Master trustees or custodians must know all the instruments.

"The other element is time," says Thomas Kimer, a senior vice president in master trust marketing with The Northern Trust, Chicago. Master-trust clients, like custodial clients, want information faster than ever before. They also want it in more usable forms, sometimes one that is unique to them.

Mr Kimer says that the speed with which custodians are now able to report is a paramount factor in offering the master trust product successfully.

The Northern Trust, with some 300 master-trust clients, is one of the leading banks in this business. Some 200 of clients are electronically tied to the bank. Mr Kimer recalls replacing a client's four securities systems - accounting, control, performance and auditing - with one master system.

This enabled the client to make a securities entry once instead of four times. Like having to copy an important telephone number needed for inter-office distribution once instead of four times, savings in time and money were, at first, hard to quantify, but the client noticed the accuracy of the systems consolidation.

immediately.

Translating the master-trust format to a global environment simply means addition of multiple currencies, multiple markets, and multiple sets of regulations. Conceptually, it is simple. In execution, it can be complex.

Because banks are the most regulated of businesses in the US, their fiduciary experience gives them a leg up. All through the de-coupling and unbundling of brokerage commissions and custodial fees in the US during the 1970s float, the interest earned by custodians on uninvested cash balances in pension funds was huge. Float existed simply because Erisa continued to be not very sophisticated. But higher interest rates in the 1970s taught US companies to be more careful about float.

At the time Erisa was passed, exactly 16 years ago, US banks began to offer cash management sweeps and securities lending. By the early 1980s, pensions funds had caught on so master trustees competed ever more fiercely to see who could make assets work hardest for their owners. The master-trust format changed from an administrative convenience to what it is today, a generic vehicle for adding value to a portfolio by increasing the efficiencies of its management.

"We are now in the era of the master trust as an investment control system that helps the plan sponsor financially engineer the kinds of risk return trade-offs he wants in a world where he has hired specialist money managers independently to effect those results," says Mr Martin.

Because of the high level of reporting standards Erisa imposes, US custodians believe it is very simple to say to the rest of the world that they are ready assist any institution in "engineering" superior portfolio performance.

US global custodians see master trust as a vehicle for expanding their asset bases. An example of the master trust/global custody synergy is Chemical Bank, which was recently appointed as the master custodian for the \$23bn Teacher Retirement System of Texas.

One of the top five pension funds in the US, it can be assumed that if this fund follows the present US investment trend toward global diversification, Chemical will, in time, see between \$4bn and \$6bn invested globally.

Desmond MacRae

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Profile: Morgan Stanley (MSGSS)

## Doubts dispelled

MORGAN Stanley's entry into the global custody business in 1987 was greeted with scepticism by its competitors.

The business was, and is, dominated by the US money-centre banks and the UK clearingers, who view it as a natural extension of trust banking and international payment activity.

The success of Morgan Stanley has done much to dispel the validity of this theory, and, although it has recently tempered its philosophy, it has established systems technology as the dominant factor in the success of a global custodian.

In late 1987, the management of the newly-formed Morgan Stanley Global Securities Services (MSGSS) set out its initial strategy. The key element was to target areas of business that existing custody providers were either not serving or not serving well.

One such area was the administration of international index portfolios. MSGSS had the added advantage that its parent company owns the Morgan Stanley Capital International Index, the main US benchmark for international investment.

Alan Trager, president of MSGSS, explains that he saw a gap in the market. At that time, few custodians had experience in dealing with large portfolio trades that are required to restructure a fund tracking an index. The initial emphasis on international indexation also meant that the firm had to be able to process large amounts of data cheaply and effectively.

In keeping with the strategy, Morgan's first client was Wells Fargo Investment Advisers. Although Wells is the world's largest index fund manager, the majority of funds at that time were in US equities. The relative inexperience of both the client and the custodian in the international fund sector was a severe test for Morgan Stanley's systems and staff.

Alan Trager, president of MSGSS, comments: "We felt that if we could satisfy that client then we would establish our credibility."

The approach worked. By being able to satisfy the high-service and low-cost requirements of the indexer, Morgan Stanley was able to command the attention of consultants

and fund administrators. As a result, the operation has grown rapidly, moving from no assets under custody in 1987 to more than \$15bn by August this year. More remarkable still, for a start-up operation, is the quality of the client list, which includes the Prudential Insurance Company in the US and Henderson Administration in the UK.

The reputation of the parent company, while not enough to win custody business, certainly meant that its sales pitch was listened to. A UK client explains that the relationship his firm had built up with Morgan Stanley in securities trading was a positive factor in the choice of Morgan as a global custodian.

Most of its clients seem to have accepted the fact that custody was a natural evolution from the firm's experience in international securities dealing. Cynics might add that the contraction of the securities

### Technological strength has aided success

markets after the 1987 crash made the fee-based income of global custody an essential prop to an investment bank.

Morgan Stanley managed to transfer the responsive image of an investment bank to global custody. The operations manager at a US client makes the point that his institution was impressed by the fact that Morgan was a dynamic operation, compared with the more bureaucratic culture of the commercial banks. Vivienne Lee, senior manager at Henderson Administration, makes the point that her institution has been able to "get the changes that they have asked for" from the custodian.

The key selling point of the operation has been its technological strength. Chants key in the trade information once. It is then fed, via the link with Morgan Stanley Trust in New Jersey, to the London office, where it is checked and then sent on for processing.

The use of direct mainframe-to-mainframe links between the client and custodian means that the client has a confirmation the following day. Vivienne Lee contrasts

this with the Royal Bank of Scotland, Henderson's previous custodian, where data was rekeyed a number of times, increasing the chances of error and the overall cost of transaction processing.

But this emphasis on technology has also caused problems, as Mr Trager admits. Hammered by hardware and software, Morgan Stanley failed to commit the human resources needed as the operation changed from specialist to full-scale custody. By late 1988 the situation was causing problems for clients.

Vivienne Lee says that there were simply not enough people with the skills necessary to deal with client problems. At the time, many of Morgan Stanley's competitors were predicting an exodus of clients. To its credit, that exodus did not take place.

At the beginning of this year Morgan Stanley undertook a thorough reorganisation - there were problems with the service, but they have now got the right people in place and have doubled the number of staff dealing with clients and have been impressed by their honesty and the speed with which the changes were made," she says.

The prompt response to the operational difficulties seems to have limited the damage done to clients' confidence in the custodian. Jerald Lanzotti, chief operating officer of PCM International, for example, refers to the operational difficulties as "digestive problems". Morgan Stanley is going to face stiffer competition in the future. Many of the innovations that it introduced are likely to become standard practice in the future. Nor will it remain the only investment bank in the business. Its success has encouraged two of its main Wall Street rivals, Merrill Lynch and Goldman Sachs, to enter the fray.

Particularly galling for Morgan is the fact that Robert Kay, one of the architects of Morgan's operation, has left to take up control of Goldman Sachs Trust Company, the investment bank's fledgling global custody subsidiary.

Stephen Goldman  
Deputy Editor,  
Global Investor

Standard Chartered Bank

Bank of Japan figures show that outward securities investment nearly quintupled, to \$513bn. In the four years through fiscal 1989, about 2.6 times the US figure, but industry officials say only a small fraction of the total is under global custody, mostly with foreign banks.

Traditionally, Japanese financial institutions have left their portfolios in safekeeping with domestic securities companies. Although not permitted to offer the add-on services that distinguish global custody, securities houses charge next to nothing up front, and compensate with future trading commissions.

For the US and a handful of local banks now marketing global custody services in Japan, the safekeeping system has made it an uphill battle to convince potential clients that extra services are worth added costs.

Global custody is a baby business in Japan, and first you must explain why clients have to pay.

"Japanese assets are huge, but they are very concentrated, and many people don't realise yet what information needs [will arise as they diversify]," says Edward Cooper, vice president in charge of global custody at Chase Manhattan Bank, N.Y.

Chase is bullish enough on the Japanese market, so that its local trust bank abandoned yen fund management in January to focus solely on global custody, much to the surprise of some competitors - "we think we can be competitive with anyone in this niche," explains Mr Cooper.

To do so, Chase is assembling a team to provide the personal service, language abilities and customised tax information that Japanese clients have complained is lacking among foreign custodians, he says.

Other US industry leaders are sourcing business through Japanese trust operations. Manufacturers Hanover Trust Bank, for example, estimates that 35-40 per cent of its \$3.5bn assets in Japanese trust assets are under global custody.

Citibank now services Japanese clients out of New York, London and Hong Kong, but is planning a global custody road show in November.

The bank plans to launch

offers custody at Asia-Pacific branches, and will put a unified reporting system on line by the first quarter of 1991.

State Street Bank, which set up a shop in Japan this year, is targeting Japanese investment trusts, the local equivalent of mutual funds, and other vehicles not requiring a trust

full-service global custody next February, with an internally developed computer system that will match those of industry leaders and fully in-house sub-custody through BOT affiliates in 15 markets, says Kiyotaka Shirai, deputy general manager of securities services.

Other Japanese commercial banks are widely expected to enter the market over the next few years, partly because the fee income will help them meet Bank for International Settlements capital adequacy requirements.

In addition, global custody could offer vital connections and experience leading up to repeat of the barrier between commercial and trust banking, which many observers think will occur within a few years.

Among Japanese competitors, the Bank of Tokyo (BOT) has a formidable early lead, with some 40 per cent of Japanese securities already in its vaults (much via securities houses) and 400 employees deployed to custody services.

The bank plans to launch

on the other hand, trust banks are still the sole potential custodians with direct access to pension and trust funds, but have limited overseas operations.

Mitsubishi Bank, now continuing Japanese global custody clients, first entered the business through its Bank of California subsidiary to attract US trust funds, says Yoshiharu Tanabe, senior manager of Mitsubishi's global custody office.

While the Japanese global custody market offers excellent potential, it will not be fully tapped until after bank deregulation.

Should the liberalisation tide eventually allow securities

firms into the market, at least some of the larger houses are likely to jump in as well.

Still, the cost and logistics of setting up a global custody network remain formidable hurdles, even for Tokyo's financial titans.

"Every bank wants to get into global custody, but they hesitate over the cost, so there is much talk but little action," says Mr Shirai, at BOT.

A capital-markets official at another city bank says his department has solved systems and service problems, but has declined to go ahead with global custody, because most Japanese institutions are unwilling to pay for such services or shy away from the degree of financial disclosure that centralisation would demand.

For those Japanese banks offering global custody, the initial strategy is fairly uniform: use long-term relationships to target Japanese institutions, especially life insurers, the world's largest institutional investors.

Other potential clients include trust banks, securities houses, regional banks and eventually the postal savings bureau and non-financial institutions, which cannot now invest directly in foreign securities.

Japanese global custodians generally acknowledge that they lag behind US industry leaders in systems technology and experienced personnel, and that going head-to-head for non-Japanese clients is at least a few years off.

At Chase, Mr Cooper adds that Japanese custodians are just now piecing together fundamental settlement and safekeeping networks, while the industry's vanguard is moving beyond the next stage of providing sophisticated information to empowering clients to take action at their terminals.

Still, Japanese bankers say they are uniquely suited to offer the customised service the nation's finicky institutional investors demand - something they are counting on to gain an industry foothold.

"We know what they want; we know what they need; we can respond to their requirements," says Kazuhiro Kunitaka, a manager in Sumitomo Trust's securities business planning department.

Given the recent achievements of Japanese banks, it would seem unwise for foreign industry leaders to take the challenge lightly.

Neil Weinberg



Central Tokyo: even for Japan's financial titans, the cost of setting up global custody networks remains formidable.

JAPAN

## Relative newcomer

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On the other hand, trust banks are still the sole potential custodians with direct access to pension and trust funds, but have limited overseas operations.

Sumitomo Trust & Banking is the only Japanese trust bank to enter the fray so far, and will add a new US-developed computer system in October, says Takahiro Nomoto, a manager in the securities business planning department.

Given the recent achievements of Japanese banks, it would seem unwise for foreign industry leaders to take the challenge lightly.

Neil Weinberg

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## INTERNATIONAL SETTLEMENT 6

A wind of change is blowing through Europe, which finds ...

## Clearers at the crossroads

EUROCLEAR AND Cedel, the two international clearing organisations have long dominated clearing and settlement in Europe. From their solid foundations in the Euromarket, they have been expanding into a wide range of international securities, including equities.

However, the worldwide trend towards improved local market settlement raises profound questions about their future in supporting investors' interest in Europe's capital markets.

The available evidence suggests that Europe will be a busy investment centre in the 1990s:

■ Salomon Brothers estimates that equity transactions will outpace cross-border bond transactions some time in the early 1990s. This should be seen against the present total value of international equities held by foreign investors which reached \$830bn in 1989 with turnover of \$1,586bn. In addition, cross-exchange trading reached \$522bn in 1989.

■ Europe attracted a foreign investor to one in every three shares traded during 1989. Foreigners put more money into West German equities during 1989 than into any other single market. In all, Europe attracted more than 50 per cent of all new cash committed to international equities during 1989.

■ Equity-based cross border inflows to Europe amounted to \$63.5bn in 1989. Most of this investment was made from asset management portfolios (\$42.1bn) with the balance from merger and acquisition activity.

The traditional client base of Euroclear and Cedel has been that of professionals dealing predominantly in bonds. The growth in the importance of international equities is diluting the position of these groups as the focal point of settlement and clearing on the international capital market.

There appears to be a developing conflict as the specialist international fund managers and self-managed institutions build their own trading and investment operations around their traditional relationships

Market	Capitalisation	EUROPEAN EQUITY MARKETS			
		Total	Turnover Foreign Investors	Cross-exchange trading*	Market turnover rate %
UK	814.3	635.0	141.3	97.9	0.78
France	337.6	221.3	58.2	35.0	0.66
Netherlands	154.5	97.8	61.9	87.5	0.63
Spain	122.8	79.3	23.4	7.4	0.65
Switzerland	170.9	703.8	37.0	8.1	4.12
W. Germany	365.2	628.2	108.3	122.4	1.91
Rest of Europe	459.8	205.9	53.5	25.1	0.45
Total Europe	2,425.2	2,571.3	494.6	383.4	1.06

\*Estimated

Source: Salomon Brothers

with domestic exchanges, correspondent banks and global custodians.

This poses an obvious threat to the clearers. The tacit and much-resisted acceptance of institutional investors and asset managers as direct members of the organisations seems to be a calculated reaction to minimise this damage.

The two clearers are also looking hard at building links with domestic exchanges which will enable participation in the settlement and clearance of cross-border bargains. Links are already in place between a number of exchanges.

However, it remains to be seen whether London's International Stock Exchange (ISE) will allow either clearer direct access to the Taurus system. This must be a key strategic aim for both organisations — the UK continues to be the largest trading base for the world's international equity markets.

If the ISE were to allow direct access, there would immediately be available to the UK investment community an electronic trade matching, guaranteed delivery versus payment and cash and stock borrowing service. The economic justification for developing an equivalent system in London for internationally traded stock would obviously be diminished.

The ISE's natural concern must include the potential loss of business in Alpha and Beta stocks to Euroclear and Cedel, with the smaller and less liquid stocks remaining in London.

For the moment, the issue is sufficiently guarded by the presence of UK Stamp Duty which, purely on cost grounds, effectively precludes the transfer of UK domestic stocks out-

These investment flows are

driving Euroclear and Cedel increasingly to see their role as facilitators to equity, as well as bond, investors. Euroclear for instance, already supports the settlement of a significant proportion of SEAQ International business within Europe, particularly for West German investors.

The two clearers are also looking hard at building links with domestic exchanges which will enable participation in the settlement and clearance of cross-border bargains. Links are already in place between a number of exchanges.

The two institutions are revising their membership rule-books, while at the same time promoting the cost effectiveness and ease of use of their existing electronic systems.

Many banks are, of course, members of both Euroclear and Cedel, which poses the interesting question of whether the clearers can really compete as custodians against their own shareholders.

There is both a threat and a challenge here. Cedel and Euroclear can continue to provide a range of complementary services to their members building upon their existing clients' relationships.

Alternatively, they might develop the data manipulation and reporting services which would form the basis of future global custody services. Publicly, officials deny any intention to compete head-on with the custody banks. There is little doubt they are privately considering doing just that.

Simon Thomas and Chris Collingwood Consultants with KPMG Peat Marwick



Alan Taylor: 'you can only move forward in this business at the pace of your systems development'

Tony Andrews

### Profile: Swiss Bank Corporation

## A Thameside strategy

LIKE MOST European banks, Swiss Bank Corporation (SBC) was caught off guard by the skillful repackaging of the back office by the American money-centre banks.

"We did global custody for decades, only we never called it. It was just part of our operations. The Americans were ahead of us in thinking of it as a product, building it up and marketing it," admits Peter Wittmann, first vice president in securities administration at the bank's Basle headquarters.

Superficially, at least, SBC can claim quite plausibly to be one of the world's leading custodian banks. Long entrusted with the safekeeping of the assets of the wealthy, the taxsy and the plain unscrupulous, the funds it has under custody run, in Mr Wittmann's estimation, into hundreds of billions of Swiss francs.

Yet in reality SBC, marooned in a trifling domestic market and short of institutional clients, is poorly placed to compete with the likes of Chase Manhattan and Citicorp in the global-custody market. Mr Wittmann admits as much. "As a group, we don't think it is a product which has sufficient potential to warrant the resources necessary to differentiate us from our competitors," he says.

His scepticism is not shared by Alan Taylor, director of global custody services for Swiss Bank Corporation in London. He dismisses suggestions that global custody is a cut-throat business best left to American banks with more money than sense: "I don't think custody is an unnatural business for Swiss Bank to be in. We have a triple-A credit rating, an infrastructure in place and extensive client relationships. It would be unnatural if we were not in this business."

Though the bank has abandoned its American custody business to Brown Brothers Harriman (citing insufficient volumes), Mr Taylor's voice has so far proved the more persuasive. A rigid distinction between domestic and international operations enables SBC to accommodate contradictory views

Chicago, where he helped Trevor Thomson humble the mighty Chase Manhattan in the battle for control of settlement and clearing in the London money markets, and County NatWest, which was the leading supplier of issuing agency services to the sterling commercial-paper market by

value added services — securities lending, cash management, foreign exchange and portfolio valuations and reporting — are on offer, and continuing investment in new technology is promised.

"You can really only move forward in this business at the pace of your systems development, because any innovations you want to make involve changes in your systems," says Mr Taylor.

Staff morale has improved; the bank is picking up new business and the custody division is profitable. Yet Mr Wittmann's view seems the more realistic in the longer term. SBC lacks the mass of institutional clients on which the major global custodians thrive. Nearly two thirds of the funds the bank currently holds belong to private clients (two thirds of them from abroad) or foreign banks, for which it acts as Swiss sub-custodian. Only about a third of SBC's funds are institutional, and less than a third of these are foreign.

Wittmann believes the Swiss institutional market is too small to generate the economies of scale which justify the incessant technological innovation necessary to win institutional business overseas.

"Our backyard is too small by comparison with the US and

Continued on facing page

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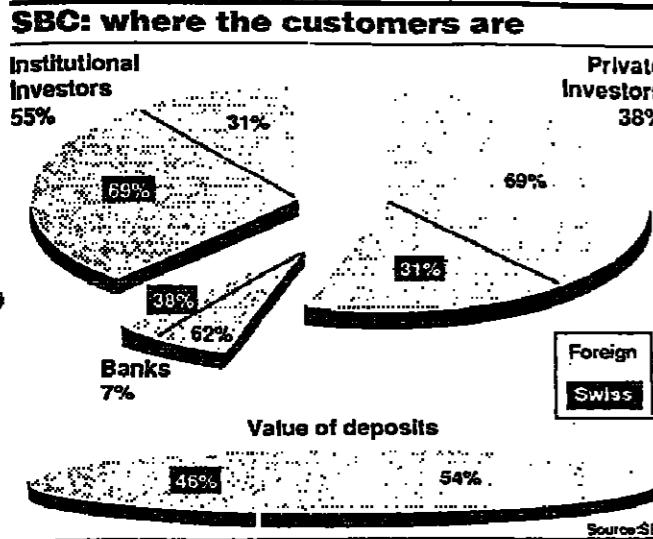
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## INTERNATIONAL SETTLEMENT 7

As the UK edges towards dematerialisation...

## Global custodians are bullish about Taurus



Continued from facing page

UK. The custodian banks there are in an expanding market, and even they will be thinned out," he predicts.

But it is a weakness Mr Taylor believes he can rectify without compromising on either quality or price.

## A favourable response

A number of European institutions have switched to SBC. Several British institutions are responding favourably, and prices are holding up well.

"We never go in at silly prices, ever," he says.

Differentiation, not volume, is Mr Taylor's toughest challenge.

All of the singular advantages he abhors – state-of-the-art systems, dedicated account officers, language skills, active management of the sub-custodian network, stock lending, cash management, forex services and the like – are indispensable to any bank with serious pretensions as a global custodian.

Mr Wittmann is somewhat pessimistic, however.

He believes the efforts of SWIFT and the Group of Thirty will eventually standardise communications and technological disintermediation banks from the settlement and clearing of securities, except in a few emerging or especially intractable markets, and dissolving sub-custodian networks in favour of direct electronic links with the major national and international depositories.

"Global custody is becoming a commodity market with falling prices," he says.

THE AUTOMATION of UK share dealing was brought in with a big bang. The automation of UK settlement will be a series of controlled explosions. The much-delayed Transfer and Automated Registration of Uncertified Stock (Taurus) will now be implemented over a period of three years, and will involve the complete dematerialisation of UK stocks, the replacement of the two-week account with rolling settlement, and the introduction of delivery versus payment (DVP).

These changes will have a dramatic effect on the way back-office functions are organised in the UK, and the indications are that global custodians will be the main beneficiaries.

Throughout the 1980s, the yearly delays of Taurus were as much a feature of the UK stockmarket as the backlog of failed trades, which, at the worst point, was valued at £8bn. Now that image of the International Stock Exchange (ISE) has been dispelled by a series of reforms instigated by its chairman, Andrew Hugh Smith, and the chief executive, Peter Rawlins.

Under Mr Rawlins' direction, settlement activity at the ISE has been split off into a separate business unit, with its own board charged with the task of running it as a business. The result has been that Taurus has finally been wrested away from the bureaucrats and the process of implementation has begun.

"What Mr Wittmann really means is that the speed of our development and the transformation of our services – in terms of investing in new systems – would have been done at a more measured pace under Swiss control," says Mr Taylor.

## Backing from Basle

It seems that Basle is prepared to back Mr Taylor with both money (it funded the development of SwissSec) and time (there is no formal deadline by which Mr Taylor must demonstrate success).

SBC has already abandoned the American market as uneconomic, and the final choice will probably hinge on Mr Taylor's ability to keep his operation in profit.

"We see ourselves increasing our cash flow through cost reduction rather than revenue increase," warns Mr Wittmann.

## Dominic Hobson

European Editor  
Global Custodian magazine

a custodian bank, then it has to be viable for an institution of our size," notes Mr Bell. According to his estimates that £5bn of assets is the minimum size for an institution wishing to take this direct route, that still leaves room for a significant number of institutions.

Whether the majority of these institutions will be willing to make the commitment of resources needed to become an account controller is open to question. George Johnson, of Coopers & Lybrand Deloitte, warned an audience of investors at a recent seminar on Taurus that having to reconcile trade date with accounting systems with the Taurus records would make immense demands on existing in-house accounting and settlement systems.

Similarly, John Gubert, head of markets development at Midland Securities Services and chairman of the ISE's settlement risk management group, is sceptical about the ability of most investment institutions to cope with the demands of the Taurus system.

If the institution is a large homogeneous fund, investing only in UK stock, then it could make sense for it to become a TAC. In reality, investors have stocks, gilts, money-market instruments and foreign securities in the same portfolio. Even the task of keeping Taurus-eligible stock separate from other securities is one that would task most omnibus portfolio accounting systems.

"People still think that Taurus means one computer link in the back office with one employee operating it," notes Mr Gubert. "They fail to take into account the questions of reporting, auditing and trustee-ship that will arise in the new system."

The global custodians have realised that, far from making them redundant, Taurus represents a marketing opportunity. Although the costs of settlement and safekeeping will fall, the comparative cost advantage that the large custodian banks now have over the majority of institutions will remain after the implementation of Taurus.

## Settlement implementation timetable

Member firms	DESIGN	USER TECHNICAL SPEC	MRIO LIVE	BUILD & TEST	BUILD	PARTICIPANT TESTING FACILITIES	TAKE-ON PARTICIPANTS
MRIO/MRO							
Participant testing facilities							
Book entry transfer (BET)							
Rolling settlement							
Delivery versus payment							

The timetable consists of three major stages as follows:

● Implementation of network links and testing facilities (infrastructure). ● Book entry transfer (dematerialisation).

● Rolling settlement & delivery versus payment (risk reduction).

Source: International Stock Exchange

1990 1991 1992 1993

RECONCILE SAFE CUSTODY HOLDINGS

ROLLING SETTLEMENT REQUIREMENT & DESIGN

ROLLING SETTLEMENT LIVE

PARTICIPANT TEST

DELIVERY VERSUS PAYMENT

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## INTERNATIONAL SETTLEMENT 8

Systems: in-house or off-the-shelf? Either way...

## The client demands service

THE HUGE surge in international investment and share-trading has spawned a new and highly profitable industry - global custody. Someone has to look after all those share certificates sloshing around the globe, check that dividends are paid, currencies correctly translated and proxy forms processed.

At the top of the fast-growing pile of participants are the major banks, mostly American; and, in a world of bad debts, downgraded credit ratings and industrial uncertainty, the once little-regarded custody divisions are now welcome providers of big profits.

But with an increasing number of spoons dipping into the same pot, the competition is getting more intense, and the key to grabbing clients from rivals is to provide better service. In turn, that requires the latest technology to process the huge amount of information locked up in portfolios, and keep clients fully in touch with their portfolios.

The debate in the industry is now whether to develop in-house systems, or buy them off the shelf. As with so many computer-based activities, improvements in techniques mean that change is constant, and the search for improvements provides almost instant obsolescence.

There are a score or more of tailor-made systems which custodians can install, but some of the larger players still prefer to be their own architects. Hal MacIntyre, of Citibank, New York says: "When we started looking at this area

several years ago, we noticed some obvious trends that are affecting the industry - globalisation, the 24-hour markets, the high risk associated with the settlement process in multiple locations. Although the Group of Thirty is working diligently to streamline the settlement process, for many years we believe we are going to be working in multiple infrastructures with different information standards.

"We decided to develop a system in-house, because the 26 major packages we examined could not support our business requirements. Many of them were 10 or 15 years old. This is not the kind of environment that will form a strategic platform in the 1990s."

However, others disagree. Julian Hards, head of settlement products at Midland Bank says: "We have installed New York-based Vista Concepts' VSPS system, because we haven't seen any banks being successful at building a bespoke custody system. Vista Concepts is a NYNEX company, with VSPS used by the Amsterdam depository, Nederlands Centraal Instituut Voor Giroal Effectenverkeer BV (NCGIEF), Royal Trust Company in Canada, and Midland Bank in the UK. Vista also provides trust accounting, trade

order entry and capital markets processing products.

This disagreement between custodians is further complicated by two varieties of third-party package available. Some are revamped investment management products, and others are true global-custody systems. Vista Concepts falls into this latter category, along with BIS Banking Systems' FundMaster and Birmingham, Alabama based Dyatron's Omni GS system. Dyatron is a wholly-owned subsidiary of SunGuard Data Systems based in Wayne, Pennsylvania. It has been in the financial services software business for 25 years, and also has domestic stock-lending and trust accounting systems in its portfolio.

On the other side of the fence are two London-based companies. Apricot-owned ACT Financial Systems' 15-year-old Quasar system, a portfolio-management product aimed at institutional and private-client portfolio managers, and Clarke & Tilley's Paladigm System. Both sides have something to offer, and the final decision rests on balancing functionality required with cost.

Sean Quinn, of Chase Manhattan Bank, puts Quasar into perspective, saying: "Some of our clients who require links

to their own internal systems use Quasar, so we sponsored a link from Quasar to Chase for the trade instructions.

The most common criticism made by custodians using in-house systems is that there is insufficient control over their own destinies with third-party vendors. Steve Plampton, at Boston Safe, explains:

"We develop everything ourselves. If you go to bed with an outside agency, you rely on them to develop everything as they want. The cost tends to be that much higher. Once you start making adjustments to the system, then they won't support it. It is much better to develop your own system, so that you can develop it how you want."

This desire to have flexibility is borne out of two needs: to stay in touch with an ever-changing marketplace, and to maintain competitive edge. These two requirements are balanced by the need to minimise costs.

Mr Hards explains Midland's position: "If you are a large custodian and you can afford the investment, then Vista Concepts is the solution. Running on a mainframe IBM platform, VSPS is an on-line, multi-currency, multi-lingual real-time securities processing system with once-only data

entry. It accommodates specific reporting and tax requirements of various countries, as well as providing electronic interfacing, with depositories such as Euroclear and Cedel, and messaging direct to SWIFT. Both BIS Banking System's FundMaster and Dyatron's Omni support similar functions. So what differentiates the products, and why do some custodians prefer to use their own bespoke system?

Mr Quinn says: "The packages that come from the investment management angle are less rich in functionality than those that are developed specifically for global custody. However, many of the products that are intended for global custody are dedicated more to a single market like the US."

This dislike of investment management systems is shared by Mr Hards. "Paladigm and Quasar are what I would describe as the problem, in that they are systems that have been bent to be custodian systems. They are not safekeeping and settlement systems."

As one custodian says: "All the vendors claim to offer a better solution than they do. I can't honestly say that anyone has an outstanding offering. So an in-house system was chosen."

sen, although plans are afoot to replace it".

This is one of the hallmarks of global-custody systems: constant updating to keep pace with the market. Despite much discussion between in-house system users and those with third-party global-custody systems, both are agreed that investment management packages, warped into becoming custody systems, are not a good strategy.

But it is not all gloom at the investment management end of the spectrum. David Watson, senior manager of global custody at Lloyds Bank, explains how their system is far removed from the original Quasar package: "Eight years ago, we took on board a Quasar system that we subsequently developed into a number of separate applications. We're looking to deliver what the market requires. We don't know of any major areas which won't be delivered by this system. We're fairly bullish about it."

If you want control over your system, you have to pay with human resources. For some custodians, customising a third-party vendor product provides sufficient flexibility for the price. For others, it is necessary to keep everything in the family. One thing is certain: every custodian is trying to wring out the last drop of competitive edge from what ever system they use.

Graeme Austin  
Technology Editor  
Equity International

Marketing: Andrew Freeman  
on the change in emphasis

## That was the image - now for the reality

emphasise the service aspect of the product.

State Street, the successful Boston-based group, still uses a nautical compass to suggest accuracy and reliability. This is more down-to-earth than the image promoted by its rivals, but it is also a technocratic picture.

By contrast, Morgan Stanley - a late entrant into the business, on the back of its expertise in running index funds - tried to establish a blue-chip banking image for the product, running tombstone-style advertisements and forcing a response from competitors like Chase Manhattan. Items once regarded as secret and sacred,

The perceptible gap between client needs and the marketing of the providers has been clearly visible in the advertising of leading banks

such as client lists, are now displayed freely in advertisements in a battle for status.

The decline of what one marketing manager describes as "the intergalactic approach" is a symptom of the need for banks to mark out their distinctive abilities in what has inaccurately been seen as a homogeneous product area.

Not surprisingly, it has become evident in surveys and market research that customers are less than impressed by the standard of the product's basic efficiency. While clients generally welcome the development of additional product features, like stock lending and auto-

matic dividend payments, they really want their custodians to make it a priority to ensure improvements in the settlement and payment functions.

Within the last six months, this has created a dilemma for the custody providers and led to the review referred to above. Banks are re-thinking the way they view the product and how they sell it to customers.

Concern over future positioning has also driven the change of focus. Banks see the future of custody as tending away from a transaction-processing function towards the provision of more flexible and timely portfolio information, as well as analytical tools for data manipulation.

They are trying to alter their identities, so that they are seen primarily as information providers - and that means changing client perceptions.

To some extent, this has been facilitated by the much greater level of sophistication achieved by customers. Several years of exposure for global custody has helped customers to become clearer about what they want. "There's a knowledge base now," says Mr Robert Darmann, of Bank of America.

The perceptible gap between client needs and the marketing of the providers has been clearly visible in the advertising of leading banks. Only recently has there been a shift away from traditional campaigns stressing high technology and systems capability towards issues which reflect the new-found confidence of customers in saying what they want.

For example, Citibank stayed for a long, uninterrupted period with a campaign that stressed a futuristic, satellite-based communications product. It has now switched towards a warmer image, using the quality of its staff to

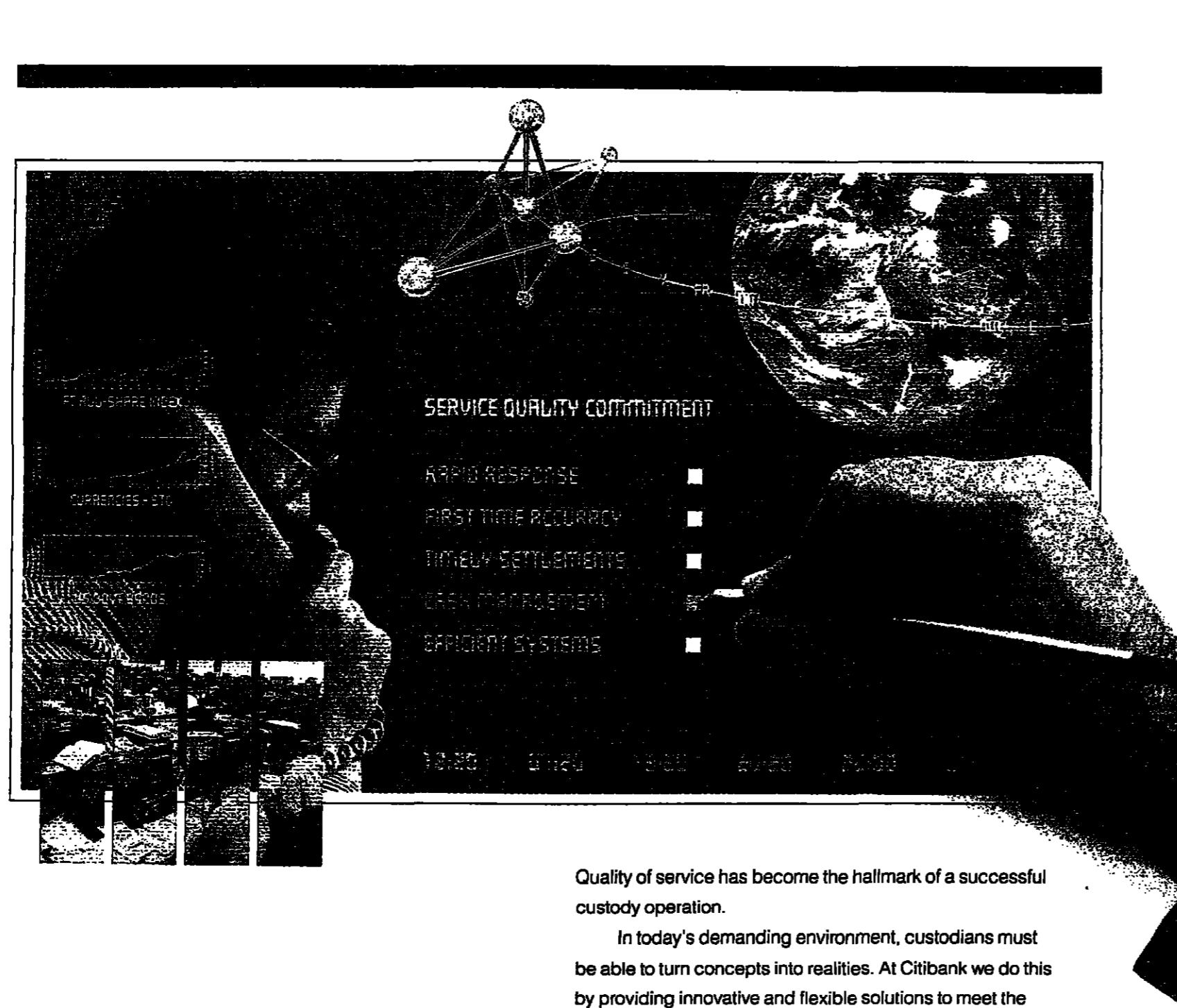
Bank of America thinks performance quality can be measured, and reports an encouraging response from customers

tomers with reports on whether it attained its own performance targets.

The system, along the lines of internal control systems run by many banks, distinguishes between responsibility for mistakes. It therefore has the virtue that it tells Bank of America what its clients and sub-custodians are doing wrong, in addition to identifying its own mistakes.

Another key area of service differentiation is the flexibility of the product mix. While a few players have the critical mass to be in a position to choose the type of business they are willing to take on, most will have to demonstrate a new-found fleetness of foot.

The need to make customers feel they are receiving a valuable service will require custodians to demonstrate a new sophistication in their marketing, and aim a less forbidding image at the market.

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